Overview to the Final Report of the Local Government Finance Commission

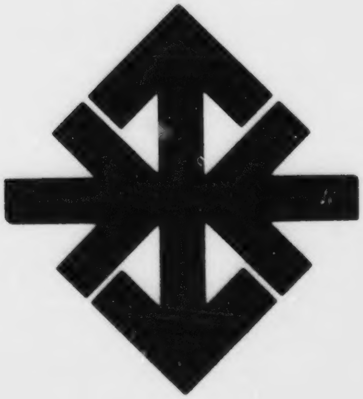
September, 1986

87-00212/

Saskatchewan
Local Government
Finance
Commission

Overview to the Final Report of the Local Government Finance Commission

September, 1986



PREFACE

The Local Government Finance Commission was established by the Government of Saskatchewan under **The Public Inquiries Act** by Order-in-Council #635/84, dated May 23, 1984. The Commission was given a two year mandate to inquire into a broad range of issues relating to the financing of local governments and to identify options and make recommendations for addressing those issues.

Among the matters examined by the Commission were:

- capital requirements and funding mechanisms;
- provincial-municipal revenue sharing;
- financing elementary and secondary education;
- property tax structure;
- property tax collection processes;
- assessment principles and processes;
- the business tax;
- role of property tax rebate programs;
- grants and surcharges of the Saskatchewan Power Corporation;
- property tax exemptions and grants-in-lieu of taxes;
- alternative revenue sources;
- local funding of hospitals, the hospital revenue tax, and the public health levy;
- local funding of libraries, and the library funding formula;
- tax abatements;
- commercial/industrial property tax sharing;
- possible shifting of program responsibilities;
- urban/rural balance of taxation;
- northern Saskatchewan;
- debt financing agencies;
- variable mill rates; and
- financial management.

The provincial government appointed a Commission consisting of eight members:

- Ray Clayton, Chairman, former Deputy Minister of Urban Affairs and Deputy Minister of Education;
- Don Rowlatt, Vice-Chairman, Associate Deputy Minister of Finance;
- Nick Volk, Past-president of the Saskatchewan School Trustees Association, representing S.S.T.A.;
- Lol O'Shaughnessy, business person, member-at-large;
- Herve Langlois, Deputy Director of Education, Saskatoon Public School Division, member-at-large;
- Bob Linner, Prince Albert City Commissioner, member-at-large;
- Ted Brady, Past-president of the Saskatchewan Urban Municipalities Association and Past-president of the Federation of Canadian Municipalities, representing S.U.M.A.; and
- Ike Thiessen, President of the Saskatchewan Association of Rural Municipalities, representing S.A.R.M..

Mr. John Wright, Executive Director, Taxation and Economic Policy, Department of Finance, replaced Don Rowlatt as of June 12, 1985. Mr. Thiessen and Mr. Brady did not participate in the work of the Commission after November, 1985 and February, 1986, respectively. Mr. Thiessen officially resigned from the Commission as of July 7, 1986.

The Commission submits its reports to a Cabinet Committee comprised of the Minister of Finance (Chairman), the Minister of Education, the Minister of Rural Development, and the Minister of Urban

Affairs. The Cabinet Committee encouraged the Commission to report its findings in the form of interim reports, where possible, to enable the provincial government to consider taking action on certain items at an earlier date than would be possible if all findings were dealt with in a single report. Accordingly, interim reports were issued in January, 1985 and September, 1985.

The Commission utilized a consultative approach in its deliberations, beginning with a major conference in the Fall of 1984, followed by regional meetings in 11 communities.A total of 126 briefs were presented to the Commission at the regional meetings. Forty-six briefs or letters were submitted by mail, including a number indicating support for their organization's brief. Discussion papers were prepared and meetings were subsequently held with various departments and agencies of the provincial government, administrative local government personnel, S.U.M.A., S.A.R.M., S.S.T.A., the Saskatchewan Health-Care Association, and the Saskatchewan Library Trustees Association. Topics discussed included property assessments and governance of the assessment function, alternative local revenue sources and utilization of the property tax base. The Commission also met with representatives of the Saskatchewan Chamber of Commerce and the Canadian Federation of Independent Business, and responded to a request to meet with representatives of the City of Saskatoon.

The Commission met a total of 83 days, including the Fall conference, and regional meetings. During the 2 year term of the Commission, the staff prepared and analyzed a tremendous volume of material, research and statistics. The Commission members want to extend their sincere appreciation and thanks to the following staff for their excellent work:

- Donald Koop, Director of Research;
- Marie Cummings, Secretary;
- Brian Hamill (August, 1984 to July, 1986);
- Bryan Hebb (June, 1985 to July, 1986);
- Arleen Hynd (June, 1984, to April, 1985);
- Michael Dumelie (July, 1984 to December, 1984).

The Commission would like to thank officials of the Saskatchewan Assessment Authority, the Departments of Education, Health, Finance, Rural Development, Urban Affairs, and the Saskatchewan Library, and Statistics Canada, for their co-operation in providing statistical and other information when it was needed.

Occasional reference is made in this **Overview** to the **Final Report,** hereinafter referred to as **Final Report** - main volume.

TABLE OF CONTENTS

OVERVIEW TO THE FINAL REPORT OF THE LOCAL GOVERNMENT FINANCE COMMISSION

PAGE

Preface i
Table of Contents iii
List of Charts iv
List of Tables iv
List of Appendices iv
Introduction 1

PART I OVERVIEW OF LOCAL GOVERNMENT 2
- 1 The Nature and Purpose of Local Government 2
- 2. Financial Overview 2
- 3. Reliance on the Property Tax 6

PART II THE LOCAL TAX BASE 10
- Chapter One — Exemptions and Grants-in-Lieu of Taxes 10
- Chapter Two — S.P.C. Grants and Surcharges 15
- Chapter Three — Commercial/Industrial Tax Sharing 17
- Chapter Four — The Business Tax 20

PART III REVENUE SHARING AND THE SCHOOL FOUNDATION SYSTEM 24
- Chapter One — The Revenue Sharing Concept and the Escalator 24
- Chapter Two — Rural Revenue Sharing 27
- Chapter Three — Urban Revenue Sharing 38
- Chapter Four — School Foundation Formula 49

PART IV CAPITAL REQUIREMENTS AND FUNDING MECHANISMS 55
- Chapter One — Background 55
- Chapter Two — Urban Municipal Capital 60
- Chapter Three — Rural Municipal Capital 65
- Chapter Four — School Division Capital 67
- Chapter Five — Central Debt Financing Authorities 71

PART V HOSPITAL GOVERNANCE AND FINANCE 73

PART VI LIBRARY GOVERNANCE AND FINANCING 79

PART VII FINANCIAL INTERRELATIONSHIPS 85

PART VIII RELIANCE ON THE PROPERTY TAX AND PROVINCIAL FUNDING 87
- 1. Background 87
- 2. Options for Provincial Funding of School Division 87
- 3. Reliance on Property Taxes and Provincial Funding of Municipalities 90
- 4. Reliance on Property Taxes and Provincial Funding of Hospital Boards 91
- 5. Reliance on Property Taxes and Provincial Funding of Library Boards 91
- 6. Rebates and Reliance on the Property Tax 91
- 7. Alternative Provincial Sources of Revenue 92
- 8. Rural/Urban Balance 93
- 9. Summary and Conclusion 95

PART IX OTHER MATTERS 96
- Chapter One — Structure of Local Government and Division of Responsibilities 96
- Chapter Two — Northern Saskatchewan 98
- Chapter Three — Variable Mill Rates 100
- Chapter Four — Financial Management 101

PART X SUMMARY 103

APPENDICES 113

LIST OF CHARTS

Chart I-1 Sources of Revenue by Type of Local Government, 1984 3
Chart I-2 Sources of Financing — Capital Expenditures 5
Chart I-3 Property Taxes as a Percent of G.D.P.P., 1968 to 1985 7
Chart I-4 Interprovincial Comparison of Net Per Capita Property Taxes, 1985 9

Chart II-1 Percentage Distribution of Exempt Assessment 11

Chart III-1 Percentage Distribution of Rural Revenue Sharing, 1985 28
Chart III-2 Description of Equalization Concept — Full Equalization 29
Chart III-3 Description of Equalization Concept — Partial Equalization 30
Chart III-4 Percentage Distribution of Urban Revenue Sharing, 1985-86 38
Chart III-5 Mills Required to Meet Standard Expenditure 41
Chart III-6 Mills Required to Finance Recognized Expenditures With and Without Foundation Grant 50
Chart III-7 Example of Level of Expenditures Recognized in the Foundation Formula 52

Chart IV-1 Capital Expenditures of Urban Municipalities, School Divisions, and Rural Municipalities 56
Chart IV-2 Per Capita Debenture and Capital Loan Debt as of December 31, 1984 58

LIST OF TABLES

Table I-1 Sources of Revenue for Local Governments, 1984 4
Table I-2 Relative Share of Major Revenue Sources by Local Governments, 1984 4
Table I-3 Sources of Financing for Capital Expenditures of Local Governments, 1984 5

Table III-1 Comparison of Actual Expenditures and Mill Rates, Most Wealthy and Least Wealthy Municipalities 33
Table III-2 Mills Required to Meet Standard Expenditures 40
Table III-3 Mills Required to Meet Standard Expenditures as a Percentage of Computational Mill Rate 42
Table III-4 Mill Rate Required to Meet Standard Expenditures as a Percentage of the Computational Mill Rate, Most Wealthy and Least Wealthy Municipalities 43
Table III-5 Impact of Various Grants on Difference in Mill Required to Finance Standard Expenditures, Most Wealthy and Least Wealthy Municipalities 43
Table III-6 Comparison of Impact of Per Capita and Foundation Grants 44

Table IV-1 Actual and Projected Capital Expenditures, Urban Municipalities 61

LIST OF APPENDICES

Appendix II-1 Analysis of Exempt Assessment in Saskatchewan, 1984 114
Appendix II-2 Municipal Surcharge, Electrical and Gas Grants in 1985 115
Appendix III-1 Impact of Partial and Full Equalization, Comparison of Most Wealthy and Least Wealthy Municipalities 116
Appendix III-2 Analysis of Impact of Options to Achieve Greater Equalization 118
Appendix III-3 Examples of Contrasting Fiscal Capacities of Municipalities 120
Appendix III-4 Impact of Revenue Sharing Options (No Increase in Grants), Most Wealthy and Least Wealthy Municipalities 121
Appendix III-5 Impact of Revenue Sharing Options (Increase in Grants), Most Wealthy and Least Wealthy Municipalities 123
Appendix III-6 Allocation of Urban Revenue Sharing Grants Among Population Groups 125
Appendix III-7 Impact of Increasing Recognized Expenditures on Most Wealthy and Least Wealthy School Divisions 126
Appendix III-8 Impact of Increasing Recognized Expenditures and Recognized Local Revenue, Most Wealthy and Least Wealthy School Divisions 128

INTRODUCTION

This is an overview of the **Final Report** of the Local Government Finance Commission. It is designed to provide a summary of the main considerations, conclusions and recommendations of the Commission. The **Final Report** contains much more background material and documentation, a more extensive description of the issues, a more complete examination of options and a more extensive explanation of the Commission's conclusions and recommendations. **This *Overview* should be regarded as a supplement to the *Final Report*, not a replacement for it.**

Preceding the **Final Report** were three interim reports:

- **Interim Report of the Local Government Finance Commission** (January, 1985)

  In this report, the Commission explained its consultation processes and outlined the issues and concerns which had been expressed to the Commission. The Commission also examined and commented upon the concepts of autonomy and accountability and described the importance of local governments. An income-based property tax credit was proposed as a means of dealing with the insensitivity of the property tax to changes in income, and to address more effectively than the property tax rebates of the day, the regressivity of the property tax for those with low incomes.

- **Alternative Local Sources of Revenue and Utilization of the Property Tax Base** (September, 1985)

  In this report, the Commission examined alternative local sources of revenue, and examined an extensive number of considerations that were of relevance to the question of which local governments should have access to the local property tax base and the extent to which the property tax should be utilized. The Commission concluded that the property tax was the only local tax source of sufficient magnitude to meet the needs of local governments and that both municipalities and school divisions should continue to have access to the property tax base.

- **Property Assessment in Saskatchewan** (September, 1985)

  In this report, the Commission examined the system of property assessments in Saskatchewan. The Commission concluded that the systems used for assessing property were fundamentally sound, but that several serious problems existed, including the lack of resources to do adequate research, reassessments which were too infrequent, a lack of thoroughness in the inspection of properties, and a lack of proper policy direction. The Commission recommended an independent assessment management agency to be responsible for the governance and financing of the assessment function. Under the Commission's proposal, local governments would have the major voice in governing the function.

The above-noted reports were interim in the sense that they preceded the **Final Report** - main volume, but they were not tentative. The Commission considered the interim reports as having dealt in a conclusive way with the particular matters addressed within each of them. The Commission issued the interim reports with a view to providing the provincial government with an opportunity to consider taking action on particular matters at an opportune time, rather than having to wait until the final report was issued.

While occasional reference is made in this **Overview** to the earlier reports, in the most part, this report does not duplicate the material contained in them. The interim reports are, therefore, integral components of the overall report of the Commission.

PART I

OVERVIEW OF LOCAL GOVERNMENT

1. NATURE AND PURPOSE OF LOCAL GOVERNMENT

In its final report, the Local Government Finance Commission addresses a broad range of issues pertaining to the financing of local governments in Saskatchewan. Issues have been analyzed, options have been explored, and the Commission's conclusions and recommendations have been described.

Local governments provide a means by which people can set local priorities and make local decisions in accordance with the particular desires of the local population served. Having local governance of certain public services provides a more effective means for the overall needs and desires of the population to be met than could be the case if the governance were vested entirely with the provincial government.

There are different types of local government, each with differing degrees of financial and policy-making independence from the provincial government. There are variations in the breadth, complexity, and cost of services provided by the different local governments, and they have varying mechanisms for being accountable to the public they serve.

In general, the current provincial/local government distribution of responsibilities for the provision of services is appropriate and, on an overall basis, local governments are providing a desirable level of services.

The Commission firmly believes in the value of local governments. They are necessary to give recognition to the variations from community to community in the needs and desires for differing types and levels of services, and to ensure effective delivery of those services.

If local governments are to be effective in fulfilling their role, they must have the independence or automomy to make the decisions they were created to make, and they must be accountable to those they serve.

The Commission has undertaken its examination of policy options with a view to strengthening local government while, at the same time, maximizing the fairness of the taxation system.

2. FINANCIAL OVERVIEW

In order to provide a context for the consideration of the numerous local government finance issues, an overview of the financing of municipalities, school divisions, hospital boards and library boards is set out below.

In 1984, the 502 villages, towns and cities in Saskatchewan spent $405.5 million in operating expenditures, and had operating revenues of $414.0 million. Property taxes[1] and related grants-in-lieu of taxes constituted 43.2% of total revenues, other local taxes, and S.P.C. payments constituted 10.6%, while government grants constituted approximately 17.5%.

In the same year, the 299 rural municipalities spent $138.1 million and had revenues of $147.1 million. Property taxes and related grants-in-lieu of taxes constituted approximately 61.6% of total revenues, while provincial grants constituted 29.5%.

In 1984, the 112 school divisions in Saskatchewan had $672.2 million in operating expenditures and had revenues of $676.6 million. Taxes and grants-in-lieu of taxes constituted 47.6% of total revenues, while provincial grants constituted 48.5%.

In fiscal year 1984-85, 129 Saskatchewan hospital boards[2] spent a total of $487.3 million in operating expenditures and had operating revenues of $479.7 million.

Government transfers accounted for 92.6% of the revenue of hospital boards, property taxes and grants-in-lieu of taxes accounted for 2.4%, and other sources of revenue accounted for about 5.0%.

In 1984, the 7 regional and 3 municipal library boards in Saskatchewan spent a total of $18.6 million in operating expenditures and had operating revenues of $18.9 million. In addition, there were local branch operating expenditures of $2.0 million. Local levies constituted 36.7% of operating revenues for regional libraries and 89.0% for municipal libraries for an overall average of 68.8%. Provincial grants amounted to 60.6% of the operating revenues of regional libraries and 8.6% of the operating revenues of municipal libraries. Revenues from sources other than local levies and provincial grants amounted to about 2.6% of revenues for both municipal and regional libraries.

---

[1] The term "property taxes" is used throughout this report to include taxes on real property assessment and business assessment, unless otherwise indicated.

[2] Includes all acute-care hospitals, except in a few cases where 1 hospital board governs 2 or more hospitals. The figure excludes the 9 union hospital districts which do not own and operate a hospital.

Together, municipalities, school divisions, library boards, and hospital boards spent a total of $1,723.7 million in 1984. By comparison, the total expenditure of the provincial government in 1984-85, excluding its transfer payments to the above-noted local governments, amounted to $2,259.9 million. In other words, for every $100 of provincial expenditures, local governments spent 76 dollars.

These same local governments received a total of $1,736.2 million in operating revenues in 1984. Property taxes and grants-in-lieu of taxes constituted $630.5 million or 36.3% of all revenues, while provincial transfers amounted to $893.9 million on 51.5% of revenues.

Table I-1 and Chart I-1 summarize the major sources of revenue for each of the types of local government.

Table I-2 provides information on the relative share of major revenue sources among the various types of local government.

Capital expenditures in 1984 amounted to $148.9 million for urban municipalities, $18.0 million for rural municipalities, $69.8 million for school divisions, and an estimated $36.6 million for hospital boards. Capital expenditures on libraries are a municipal responsibility and are reflected in urban municipal expenditures.

Table I-3 and Chart I-2 set out the sources of financing for these capital expenditures.

CHART I-1

SOURCES OF REVENUE BY TYPE OF LOCAL GOVERNMENT, 1984

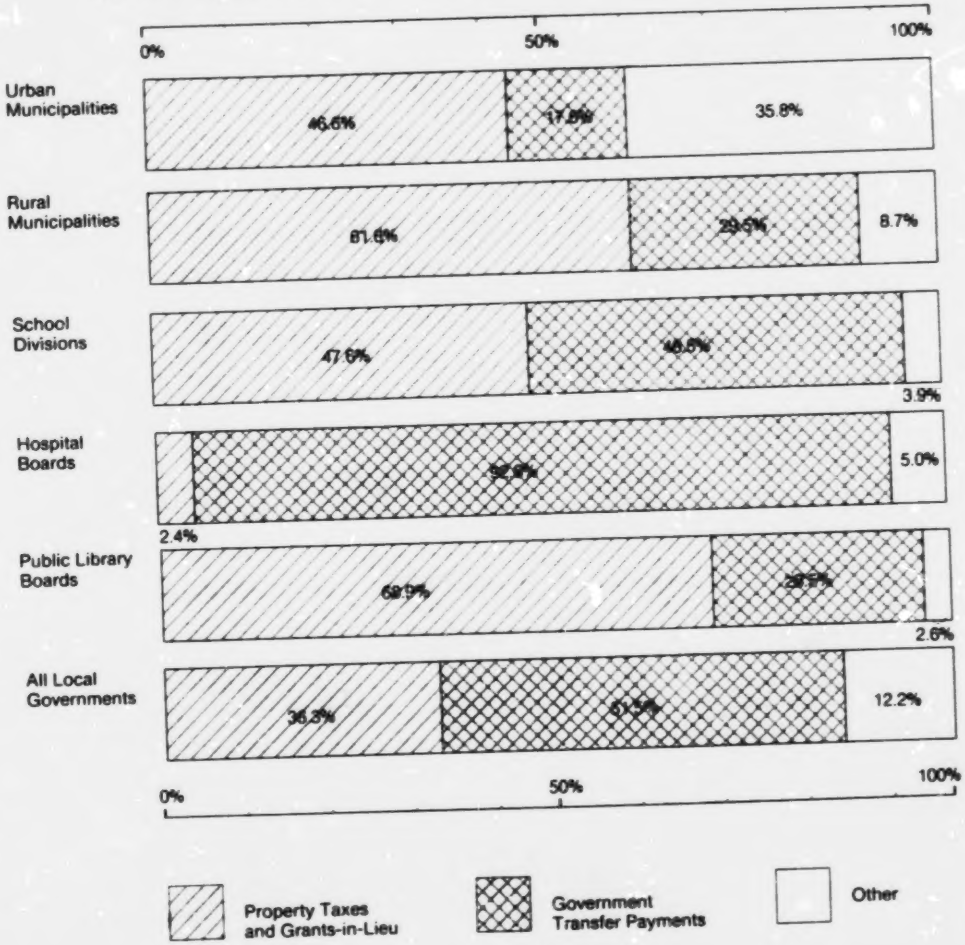


TABLE I-1
SOURCES OF REVENUE FOR LOCAL GOVERNMENTS, 1984

Type of Local Government	Source of Revenue: Property Taxes and Grants-in-Lieu of Taxes		Government Transfer Payments		Other		Total	
	$	% of Total	$	% of Total	$	% of Total	$	% of Total
Urban Municipalities	$193,164,053	46.6%	$ 72,635,795	17.6%	$148,208,208	35.8%	$ 414,008,056	100.0%
Rural Municipalities	90,932,475	61.8	43,354,281	29.5	12,799,400	8.7	147,086,156	100.0
School Divisions	321,733,084	47.6	328,399,517	48.5	26,423,102	3.9	676,555,703	100.0
Hospital Boards	11,646,186	2.4	444,106,598	92.6	23,945,668	5.0	479,698,452	100.0
Public Library Boards	12,988,821	68.9	5,370,089	28.5	500,828	2.6	18,859,738	100.0
All Local Governments	$630,464,619	36.3%	$893,866,280	51.5%	$211,877,206	12.2%	$1,736,208,105	100.0%

TABLE I-2
RELATIVE SHARE OF MAJOR REVENUE SOURCES BY LOCAL GOVERNMENTS
1984

Type of Local Government	Type of Revenue: Property Taxes and Grants-in-Lieu of Property Taxes	Government Transfer Payments	Other Revenues	All Revenue
Urban Municipalities	30.6%	8.1%	70.0%	23.8%
Rural Municipalities	14.4	4.9	6.0	8.5
School Divisions	51.0	36.7	12.5	39.0
Hospital Boards	1.9	49.7	11.3	27.6
Library Boards	2.1	0.6	0.2	1.1
All Local Governments	100.0%	100.0%	100.0%	100.0%

TABLE I-3
SOURCES OF FINANCING FOR CAPITAL EXPENDITURES OF LOCAL GOVERNMENTS
1984
($ Millions)

Type of Local Government	Expenditure $	Capital Grants $	Capital Grants % of Total	Long-Term Capital Debt $	Long-Term Capital Debt % of Total	Current Revenue Contributions $	Current Revenue Contributions % of Total	Other $	Other % of Total
Urban Municipalities[1]	$148.9	$41.9	28.1%	$21.6	14.5%	$31.2	21.0%	$54.1	36.3%
Rural Municipalities[1]	18.0	0.4	2.2	5.5	30.6	8.7	48.3	3.4	18.9
School Divisions[2]	69.8	13.1	18.8	39.7	56.9	9.9	14.2	7.1	10.2
Hospital Boards[3]	est. 36.6	23.8	65.0	N/A	N/A	N/A	N/A	N/A	N/A

---

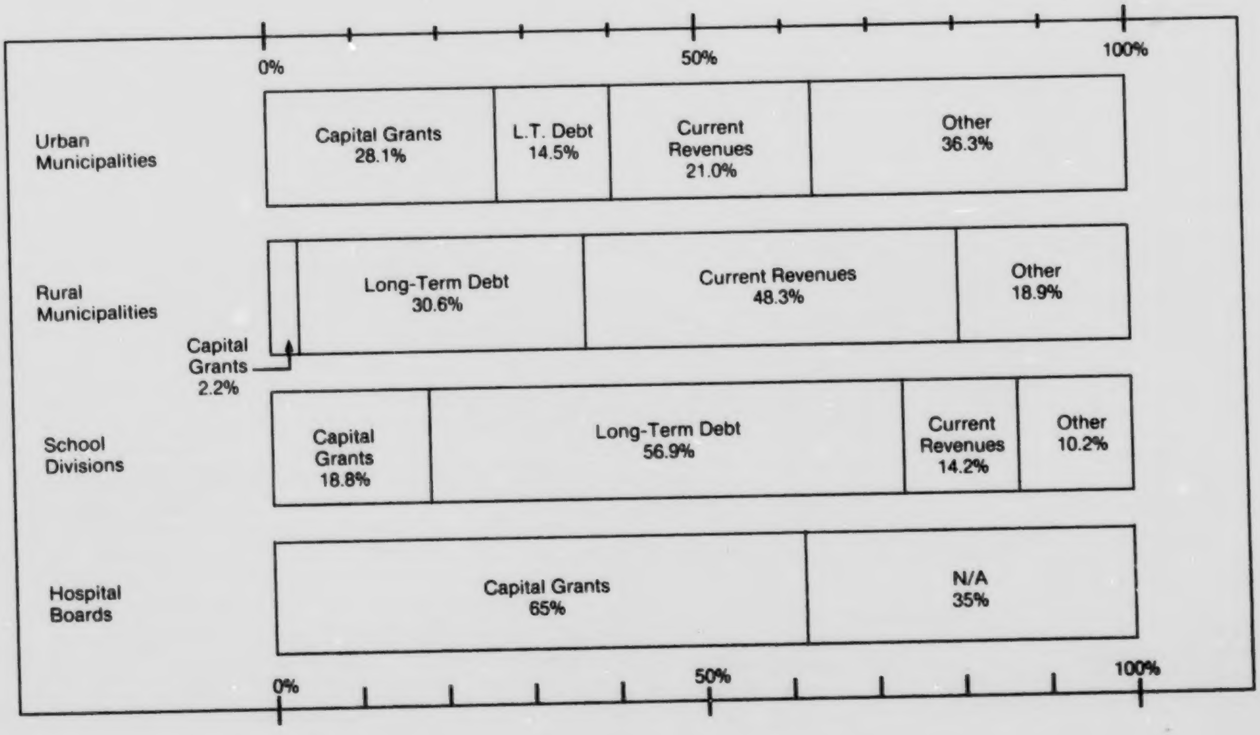
[1] In the case of urban and rural municipalities, the current revenue contribution represents the amount of money transferred from the operating fund for capital expenditures. Other sources of capital financing were obtained from the statement of capital financing. Data for northern municipalities are excluded.

[2] In the case of school divisions, the data excludes northern school divisions. The sources of financing were estimated by taking the proportion that capital grants, debenture, current revenue, and other sources represented of the total financing (excluding previous year's balance), for capital projects approved by the Department of Education for 1983 and 1984.

[3] A breakdown of sources of financing for hospital board capital expenditures was not available.

NOTE: The purpose of this table is to show the sources of revenue raised in 1984 to finance 1984 capital expenditures. It excludes funds available from previous years or excess revenues raised in 1984 which would be available to finance subsequent years capital expenditures.

CHART I-2
SOURCES OF FINANCING — CAPITAL EXPENDITURES



3. RELIANCE ON THE PROPERTY TAX

Whether there is too much reliance on the property tax is analyzed below from the standpoint of the different types of local government, as well as from an overall basis.

A. Overview

In its **January, 1985 Interim Report,** the Commission noted that property taxes had fallen as a percentage of Saskatchewan Gross Domestic Provincial Product (G.D.P.P.). Based on more recent data, the Commission makes the following observations in regard to the 1968 to 1985 period:

- The high point occurred in 1970 when property taxes amounted to 5.1% of G.D.P.P.
- The low point occurred in 1980 when property taxes had fallen to 2.7% of G.D.P.P.
- Subsequent to the low point in 1980, property taxes have risen to 3.5% of G.D.P.P. in 1985.

The changes over the years for Saskatchewan and Canada as a whole are outlined in Chart I-3.[3]

B. Municipal and School Division Perspective

Between 1971 and 1984, tax levies and related grants-in-lieu of taxes have risen from $43.6 million to $178.7 million for urban municipalities, from $26.8 million to $90.6 million for rural municipalities and from $82.3 million to $321.7 million for school divisions.

The compound average annual rates of increase were 11.5% for urban municipalities, 9.8% for rural municipalities and 11.1% for school divisions.

The compound average annual rate of increase in property taxation over and above the general rate of inflation was 2.9% per year for urban municipalities, 1.3% for rural municipalities and 2.5% for school divisions.

In 1971 property taxes and related grants-in-lieu of taxes accounted for 54.8% of total operating revenues for urban municipalities but then declined to 43.2% in 1984, due largely to increases in provincial transfer payments. For rural municipalities, property taxes and grants-in-lieu of taxes as a percentage of total rural municipal operating revenue increased slightly from 60.4% in 1971 to 61.6% in 1984. School divisions have slightly reduced their dependence on taxes and grants-in-lieu of taxes from 49.4% in 1971 to 47.6% in 1984.

C. Other Perspectives

- Mill Rates and Inflation

  For the 1971 to 1985 period, the compound average annual increase in overall mill rates has been less than the increase in the price of consumer goods and services. This means that, excluding the effects of inflation, a property owner whose assessment has remained unchanged would pay less property taxes in 1985 than in 1971.

- Specific Municipalities

  A 1985 study of 18 cities in Canada prepared by the City of Edmonton shows that in terms of net residential property taxes (property taxes after various property tax rebates are taken into account), the $1,636 in taxes on a standard house in Regina is the second highest while the $1,293 in Saskatoon ranks eighth.

  An October, 1985 quarterly survey of house prices and property taxes published by Royal LePage Real Estate Services Ltd., also shows that Regina's property taxes are high compared to other major Canadian cities, while Saskatoon's taxes are about average.

  The Commission also examined the relative taxation on farmland in the three prairie provinces, based on the farmland which is rated the highest in each province. The results showed that in regard to the samples acquired, Saskatchewan's taxes were at an approximate mid-point between those of Alberta and Manitoba.

  Comparisons of individual municipalities in different provinces have limited usefulness, partly because reasons for the different levels of property taxation cannot be readily determined. The decisions by individual local governments to provide different levels of service and the level of commercial and industrial development, for example, all affect the level of taxation on farms and homes.

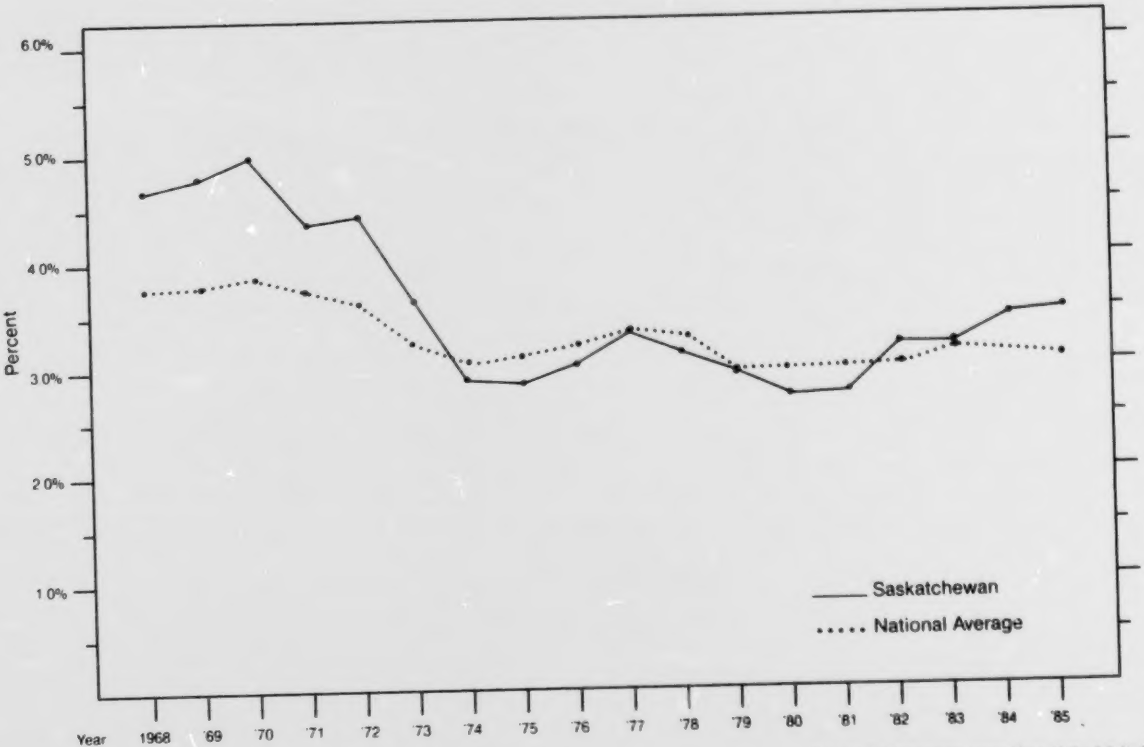
---

[3] Note that changes in the reliance on the property tax can be as a result of changes in the level of property taxation, or changes in the provincial economic performance, or both.

CHART I-3

PROPERTY TAXES AS A PERCENT OF G.D.P.P.

1968 to 1985



- Property Taxes and Farm Income

  Another interprovincial comparison with regard to farmland shows that for the 1979 to 1984 period, property taxes paid by farmers as a percent of realized net farm income averaged 10.0% in Alberta, 12.9% in Saskatchewan and 21.8% in Manitoba.

- Overall Per Capita Comparisons

  Another approach to interprovincial comparisons is to examine the per capita amount of property taxation. It is estimated that, in 1985, gross property taxes in Canada amounted to $566.94 per capita, while in Saskatchewan, they were 9.8% higher at $622.69 per capita. Saskatchewan's level is the fifth highest in Canada. All provinces west of Quebec have higher per capita gross property taxes than Saskatchewan, but the Atlantic provinces and Quebec are all considerably lower.

  Taking into account the effect of tax credits and rebates, Saskatchewan's net property taxes per capita amounted to $598.13, 16.3% higher than the Canadian average of $514.37. Net property taxes per capita in Saskatchewan are the third highest in Canada. Ontario and Alberta have higher net property taxes than Saskatchewan, but all other provinces are lower. (See Chart I-4.)

  In terms of the Prairie Provinces, Saskatchewan gross property taxes are lower than in either Alberta or Manitoba. In terms of net property taxes, Saskatchewan is lower than Alberta, but higher than Manitoba.

  On an overall per capita basis, it is apparent that property taxes in Saskatchewan are somewhat higher than in most other provinces.

D. Level of Expenditures and Level of Service

The Commission believes that local governments are, in general, providing appropriate levels of services. Levels of service are subjective matters, but the Commission neither heard during its consultation processes nor did it acquire information during its research activities, to suggest that local governments as a whole were providing either too many or too few services.

Some individual local governments are currently unduly constrained in the level of services they can provide because of inadequate equalization in provincial funding programs.

E. Role of the Property Tax

The Commission examined a number of potential local sources of revenue, but concluded that only the property tax was both capable of being administered and controlled at the local level as well as capable of generating sufficient revenue to meet the needs of local governments. A number of local sources of revenue are available to local governments to supplement the property tax, but none are of sufficient magnitude to replace it.[4]

F. Role of Provincial Funding

The two most important roles performed by provincial payments to local governments are:

- Supplement the Revenues from the Property Tax

  Notwithstanding the critical role played by the property tax in the funding of local government, the property tax and other local sources of revenue are not sufficiently large to finance locally delivered services unless they are supplemented by revenues from the broader tax base of the provincial government.

- Equalization

  The equalization principle must be incorporated into provincial funding of local governments to ensure that there is an opportunity for comparable communities to have comparable services and to ensure that the services can be provided at comparable rates of taxation.[5]

There is considerable variation among local governments in terms of the size of their local tax base relative to expenditures which they are required to make. Some local governments have relatively large tax bases and are able to provide extensive services with low or moderate mill rates even without provincial funding. Other local governments have relatively small local tax bases and without provincial funding could have only a low level of services, high mill rates, or both.

G. Summary and Conclusions

On a relative basis, urban municipalities rely much less on property taxes today than they did in 1971. Schools have reduced their reliance on property taxes slightly, while rural municipalities have increased their reliance on property taxes slightly.

Overall, as a percentage of total provincial income (G.D.P.P.) property taxes are 25% lower today than they were in 1968. However, since 1981, property taxes have represented an increasing proportion of G.D.P.P. While there has been an overall decline in the relative reliance on property taxes in Saskatchewan since 1968, the trend over the last few years has been the reverse.

On the basis of certain surveys, Saskatchewan's property taxes, on an overall basis, are higher than in most other provinces in Canada.

Residential property taxes appear to be relatively high in major urban centres in Saskatchewan, compared to other provinces.

Taxes on Saskatchewan farmland appear to be lower than in Manitoba, but higher than in Alberta.

The Commission notes that the elimination of property tax rebates has served to substantially increase the overall net level of property taxation.

The major thrust of the Commission's proposals is to address the issues of fairness in taxation and the equitable distribution of government transfer payments. The Commission has proposed the following measures to improve the fairness of the property tax in Saskatchewan:

- An income-related property tax credit was proposed as a means of compensating for the insensitivity of the property tax to changes in ability to pay and to compensate for the regressivity of the property tax for those with low incomes.[6]

- Major changes were proposed for the assessment function. Improvements are

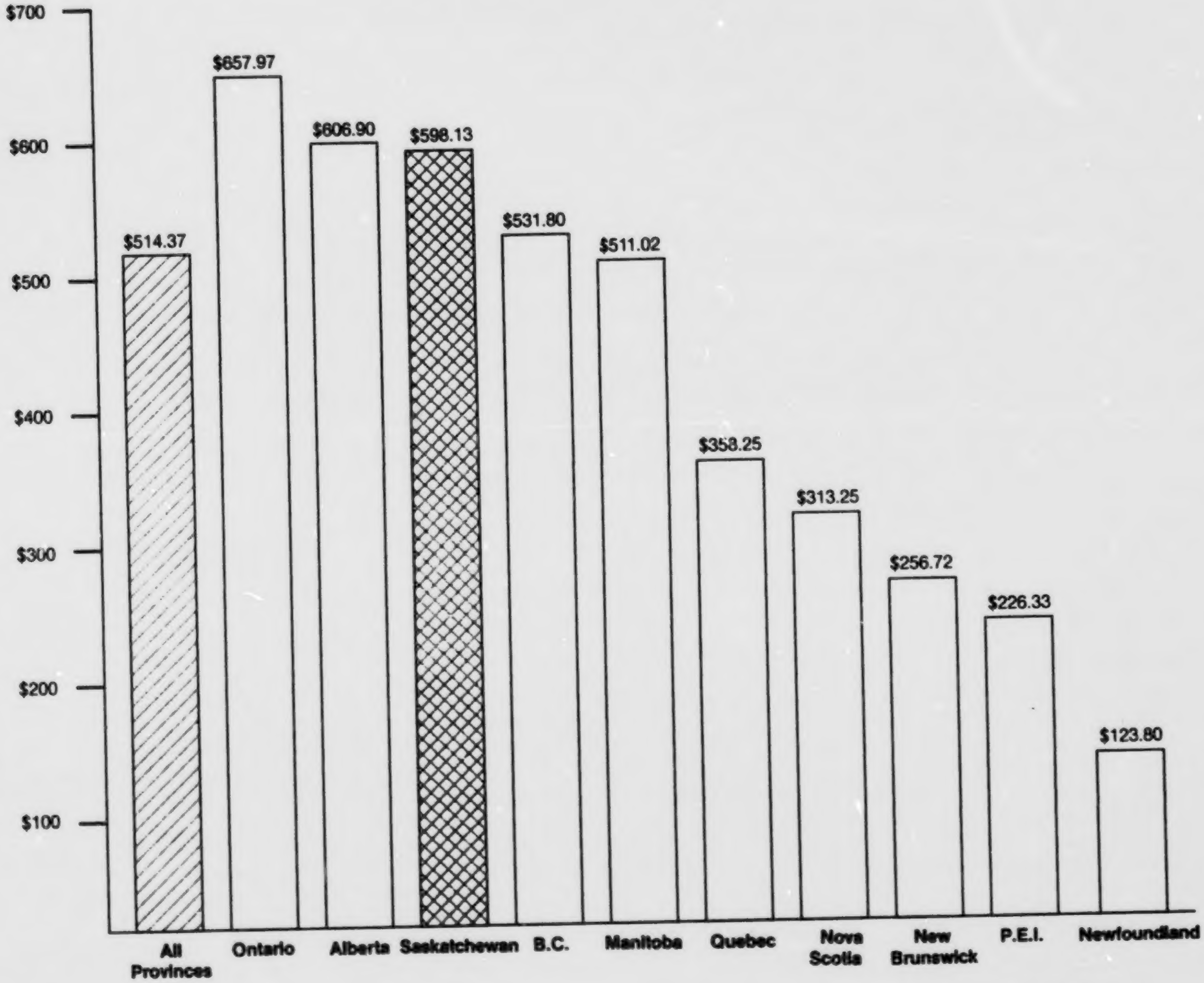
---

[4] This subject was explored in greater depth in **Alternative Local Sources of Revenue and Utilization of the Property Tax Base,** a September, 1985 interim report of the Commission.

[5] The concept of equalization is discussed at length in Part III of this report.

[6] See **January 1985 Interim Report,** pp. 37 to 41, and **Alternative Local Sources of Revenue and Utilization of the Property Tax Base,** September 1985, p. 29.

CHART I-4
INTERPROVINCIAL COMPARISON OF NET PER CAPITA PROPERTY TAXES
1985



required in assessments to ensure greater equity in the distribution of the property tax load.[7]

- Property taxes are unduly high for taxpayers of some local governments. The Commission has proposed substantial changes to the formulas used to distribute provincial funds among local governments to ensure that there can be greater equality in both local tax rates and the level of services.[8]

In order to implement the package of reforms proposed in this report, it will be necessary to increase provincial government transfer payments to local governments, increase the payment of grants-in-lieu of property taxes by the provincial government, and eliminate certain exemptions from the property tax. These measures were intended to address issues of fairness, not the level of the property tax but, nevertheless, they will have the effect of lowering the property tax load for current payers of the property tax by an average of about 20 mills, or by about 9% on average. The proposed income-related property tax credit will have the effect, not only of improving the fairness of the overall tax system, but it will also reduce the net level of property taxation. The combination of these measures will reduce the net level of property taxation in Saskatchewan below the Canadian average.

---

[7] These changes were proposed in the September, 1985 interim report, **Property Assessments in Saskatchewan.**

[8] See Parts III and IV of this report.

PART II

THE LOCAL TAX BASE

CHAPTER ONE

EXEMPTIONS AND GRANTS-IN-LIEU OF TAXES

1. BACKGROUND

Because about 19% of the potential tax base is exempt from taxation, exemptions have substantial implications for the financing of local governments and warrant considerable attention by the Commission.

Exemptions are also important from the standpoint of equity in taxation. The fact that some properties are exempt from taxation means that those who pay the taxes on taxable property must pay a correspondingly higher load than would be the case if the exempt property were taxable.

Some types of public and private property such as personal property, farm machinery, stock-in-trade, automobiles, lakes, streams and roadways are exempt from assessment and are, therefore, automatically exempt from property taxation.

Other properties, such as places of public worship and municipal property, are required to be assessed and form part of the potential tax base, but are exempt from taxation.

There are several sources of authority for determining which properties are exempt from assessment or taxation. Section 125 of the Constitution states that properties owned by the provincial and federal governments are not liable to taxation. **The Rural Municipality Act, The Northern Municipalities Act, The Urban Municipality Act, 1984,** and several Acts of the provincial Legislature sponsored by private members of the Legislative Assembly also provide for the exemption of certain properties.

Municipalities also have the legislative authority to pass bylaws exempting all or any portion of any assessment of land, improvements or business from taxation.

Municipalities also have the authority to abate, compromise, or refund all or a portion of property or business taxes which have been levied on taxable assessment.[1]

There is almost universal exemption from taxation of certain types of properties in all Canadian provinces. These include:

- Crown property (Crown property, as noted above, is not exempt by virtue of the exercise of legislative discretion by Parliament or by provincial legislatures, but is exempt by virtue of the provisions of the Constitution);
- churches;
- property of public schools;
- public libraries;
- hospitals;
- municipal properties;
- cemeteries.

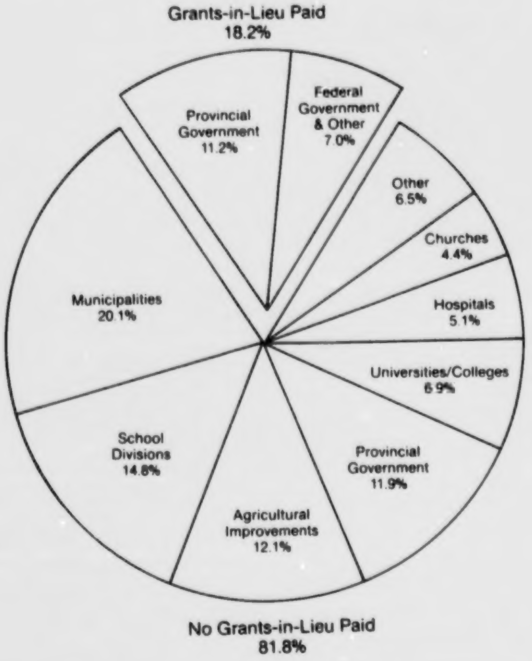
There are some variations from the general pattern in individual provinces: For example:

- In Ontario, only public (not private) hospitals are exempt.
- In New Brunswick and Prince Edward Island, only non-profit cemeteries are exempt while, in Nova Scotia, only church cemeteries are exempt.
- In British Columbia and Manitoba, property of one municipality that is located in another municipality is taxable.

---

[1] Rural municipalities must obtain the approval from the Minister of Rural Development for these measures.

CHART II-1
PERCENTAGE DISTRIBUTION OF EXEMPT ASSESSMENT



2. MAGNITUDE OF EXEMPTIONS

Based on the new (1976) values, the assessed value of all assessable property in Saskatchewan in 1984 is estimated at $7.039 billion, of which $1.346 billion or 19.1% is exempt.[2]

Of the $1.346 billion of exempt assessment, grants-in-lieu of taxes are paid by the federal and provincial governments on $245.2 million, or 18.2%. The provincial and federal governments have other properties with an assessment of $163.4 million, or 12.1% of total exempt assessment on which no grants-in-lieu of taxes are paid.

3. GRANTS-IN-LIEU OF TAXES

Although there is a constitutional prohibition against the taxation of federal or provincial government property, the federal government and most provinces have policies under which they pay grants-in-lieu of taxes to the local governments. The grants are usually equivalent to the revenue which would be raised if the property were on the tax roll and subject to the same levies as private property.

The federal government pays grants-in-lieu of taxes on nearly all of those properties which would be taxable if they were privately owned.

Policies on the payment of grants-in-lieu of taxes vary considerably among provincial governments. Most provincial Crown corporations pay grants-in-lieu of taxes equivalent to full taxation by local authorities. Only in Saskatchewan and Newfoundland are no grants-in-lieu of taxes paid for municipal and school purposes for provincial government property. The governments of Alberta, British Columbia, Manitoba (fixed grant), New Brunswick, Ontario, Prince Edward Island, and Quebec all pay grants-in-lieu of taxes on administrative buildings owned by the provincial government.

Saskatchewan local authorities receive among the lowest amounts of grants-in-lieu of taxes, both as a percentage of gross general revenue and on a per capita basis.

The estimated 1984 grants-in-lieu of taxes paid by the Saskatchewan Crown corporations and other provincial government agencies is $16.5 million. If grants-in-lieu of taxes were paid on all exempt provincial government assessment, it would amount to an estimated additional $17.8 million.

4. CRITERIA FOR EXAMINING EXEMPTIONS

The two main criteria for examining whether an exemption should be continued or removed are:

- Shift in Tax Load

  If removal of an exemption does not bring about a shift of taxation among property taxpayers, there would seem to be little consequence in either having or not having the exemption.

- Equity of Tax Shift

  If a tax shift takes place because of an exemption, the question is whether or not the shift is equitable.

Exemptions for a particular type of property are often justified on the basis that there are economic spin-off benefits to the community that arise because of the location of property in the community.

The Commission is of the view that virtually all types of property have economic spin-off benefits to a community and that if this criterion were used, there would be an argument for having an exemption for all property. Obviously, this would be a ludicrous conclusion. In short, the Commission believes that the existence of economic spin-off benefits associated with property is not a valid or helpful criterion.

---

[2] See Appendix II-1. Also, see Chart II-1.

5. PROPERTY OF THE PROVINCIAL AND FEDERAL GOVERNMENTS

The federal government currently pays grants-in-lieu of taxes on nearly all of its property and, in 1984, this amounted to about $10 million in payments in Saskatchewan. The provincial government pays grants-in-lieu of taxes on some of its property, mainly the property of Crown corporations, and these grants amounted to approximately $16.5 million in 1984.

If the government of Saskatchewan were to pay grants-in-lieu of taxes on all of its property, an additional $17.8 million in grants would be paid. Of this total, $12.0 million would go to Saskatoon and Regina, $3.2 million to other urban communities and $2.7 million to rural municipalities.

The Commission recommends that the Government of Saskatchewan pay full grants-in-lieu of taxes on its property in the same amounts as would be the case if the properties were privately owned.

The main reasons for this conclusion are that it would increase the local tax base of local governments, reduce their dependency on provincial grants or other fiscal transfers and correspondingly augment their independence or autonomy, and improve the fairness and consistency of treatment among property owners. In short, the Commission believes that it would strengthen local governments.

Failure to pay grants-in-lieu of taxes on provincial government property has the effect of artifically removing a significant portion of their local tax base - a tax base vital to the functioning of local governments.

Grants-in-lieu of taxes are not "handouts". Grants-in-lieu of taxes represent the fair share of the taxes which should be paid in regard to the local tax base by the provincial government.

Other reasons why the Commission concluded that the Government of Saskatchewan should pay full grants-in-lieu of taxes on its property are:

- Provincial government property is not located uniformly throughout the province. The exemption of government property has a proportionately larger negative financial impact on the revenue base of some communities than others. The payment of grants-in-lieu of taxes would remedy this situation.

- Current policies entail some rather arbitrary practices. For example, if the provincial government rents an office building for its employees and the building is owned by the private sector, the owner pays taxes and, in effect, the provincial government reimburses the owner for the taxes through the rent that is paid. On the other hand, if that same office building were owned by the provincial government, no taxes or grants-in-lieu of taxes would be paid under current policies.

- The benefits from the payment of grants-in-lieu of taxes accrue to more than just the communities in which the government properties are located. The revenue base of each community is an important component in the equalization grant calculation under rural revenue sharing, the foundation grant calculation under urban revenue sharing, and the school foundation grant calculation. The greater the local revenue base, (including grants-in-lieu of taxes) that a community has, the less they receive under these equalization calculations, and the more monies are available for distribution to other communities.

- Saskatchewan is the only province besides Newfoundland where the provincial government does not pay grants-in-lieu of taxes on its properties.

6. LOCAL GOVERNMENT PROPERTY

It is estimated that municipal, school, hospital and library property constitutes 41.2% of all exempt property.

The Commission has concluded:

- **That there is little or no merit in having a municipality, school division or other local taxing authority tax its own property because this, in and of itself, would bring about no shift in the tax burden within the community.**

- **That municipalities, school divisions, hospitals and libraries should not tax each other because making the properties taxable would redistribute the local tax load in only a minor way, and it would essentially be a meaningless bookkeeping exercise. Similarly, municipalities should not tax another municipality's property, etc.**

- **The Commission believes that it is important to have consistent and fair treatment of local government property, regardless of the type of local government which owns the property.**

- **The Commission recommends that the current property tax exemptions for municipal, school division, hospital and library property should be continued.**

- **The Commission further recommends that regional library headquarters owned by a regional library board should be exempt from property taxation.**

7. UNIVERSITIES/COLLEGES

As of 1984, universities and colleges accounted for $92.6 million of exempt assessment, all of which is located in Regina and Saskatoon. This amounts to 6.9% of total exempt assessment and 1.3% of total assessment. If the properties were taxed at the prevailing mill rates in Regina and Saskatoon, an additional $10.7 million would be generated.

The Commission recognizes that there are many educational and economic benefits arising because of the location of a university or college in a community, however, these facts are irrelevant to the question.

Taking all circumstances and arguments into account, the Commission recommends that the property tax exemption for universities and colleges be eliminated, and that this additional expense to the universities and colleges be taken into account by the Government of Saskatchewan in determining its annual grants, so as to prevent an additional financial burden from falling upon these institutions.

The main reasons for this conclusion are:

- The removal of the exemptions will strengthen local governments by expanding their local tax base and reducing their dependency on government grants.
- The exemption of the property of universities and colleges impacts negatively on the tax base of only two municipalities and the school divisions within those cities. Removal of the exemption, would correct this disproportionate impact.

Because of equalization-based transfers to local governments from the provincial government, most local governments would financially benefit from the payment of taxes on university and college property, not just the local governments in two cities directly involved.

8. CHURCHES

Churches currently account for $59.9 million of exempt assessment. This amounts to 4.4% of total exempt assessment and 0.9% of total assessment. If church property were taxable, approximately $6.5 million would be paid to municipalities and school divisions.

Tax exemption for churches is a concept that is deeply embedded in our society and goes well beyond the arguments over shifts of tax load and the benefits of churches to society. In western democratic societies, the church and the state exist as separate and parallel institutions, each with distinct roles to play. It is not compatible with democratic principles for the church to exercise authority over the state, nor is it compatible with basic democratic rights and freedoms for the state to exercise authority over or assume the responsibilities of the church. Taxation is not only a means of revenue, but can be a form of regulation or control. The authority to tax, taken to extremes, can entail the power to jeopardize the very existence of churches.

In the view of the Commission, the overriding fundamental principle of the separation of church and state should be applied to this matter. **The Commission recommends that the tax exemption for churches should be continued.**

9. AGRICULTURAL IMPROVEMENTS

Exempt improvements used for agriculture amount to an estimated $163.5 million of assessment, or 12.1% of total exempt assessment.

The Commission recommended that the Saskatchewan Assessment Management Agency complete the analysis of the rural improvements study initiated by the Commission before the next round of reassessments is started. The Commission recommended that the principal source of income criteria for determining whether or not rural improvements are taxable should be changed to a more straightforward and practical criteria.

10. OTHER STATUTORY EXEMPTIONS

The Commission believes that public squares, urban parks, war memorials, and municipally owned cemeteries should all continue to be exempt for the same reasons that it recommended that other municipally owned properties be exempt.

Because of the more or less proportional distribution of streets and public reserve lands in the title of the Crown throughout urban municipalities, the Commission was unable to identify any merit in making those properties subject to taxation.

On balance, the Commission recommends that the current statutory exemptions of properties owned by charitable/social organizations, and those dealt with under the various private members' bills, be eliminated, and the decision regarding property tax relief should rest with individual municipal councils.

The Commission also recommends that the Government of Saskatchewan introduce no additional statutory exemptions and that decisions on property tax relief for any individual property or class of properties be the responsibility of municipal councils.

The Commission also recommends that if the Government of Saskatchewan does introduce additional statutory exemptions, that the

Government of Saskatchewan pay grants-in-lieu of taxes to compensate the local governments for the loss in their local tax base.

11. EXEMPTIONS BY MUNICIPAL BYLAW

Properties which are exempted through municipal bylaws have an assessed value of $7.9 million, which is 0.6% of total exempt assessment and 0.1% of total assessment.

The Commission recommends that:

- **The provincial legislature be the only body which is empowered to exempt assessment from taxation, and that the power to exempt assessment be discontinued for municipalities.** A decision of the provincial government to exempt properties from property taxation affects equalization grants paid by the provincial government and, in this sense, the provincial government bears the financial consequences of the decision.
- **Municipal governments continue to have the power to provide tax relief to individual properties or classes of properties, but that the mechanism for achieving this relief be limited to abatements, compromises, and refunds.** Because equalization grants are not affected by these forms of tax relief, local governments bear the financial consequences of a local decision. Abatements, compromises, and refunds are a more "visible" form of tax relief than exemptions, and this is also compatible with accountability.

The Commission emphasizes the foregoing recommendations will not change the ability of municipalities to relieve specific property owners from property taxation and that they would merely require that it be achieved by one mechanism and not another.

From time to time, there may be advantage in enabling a municipality to provide assurances to a property owner that they will receive relief from property taxation for more than one year.

The Commission recommends, therefore, that the municipal acts be amended to permit municipalities to enter into an agreement with a property owner under which they could agree to abate or compromise the taxes on a property for up to five years at a time.

12. LOCAL DECISION-MAKING

Notwithstanding the difficulties that the current arrangements pose for school divisions, **the Commission recommends that municipalities continue to have the sole responsibility for making decisions on abatements, compromises, or refunds of taxes.** The reasons for this conclusions are:

- Joint decision-making for abatements would simply be administratively too cumbersome.
- Decisions on abatements, compromises, and refunds of taxes are designed to relieve financial hardship, or to promote investment, etc.. The effectiveness of these forms of tax relief would be limited if school divisions or other local authorities were in a position to make decisions which were opposite to those made by the municipality.

The Commission also recommends that the municipal acts be amended to ensure that school divisions are advised by March1 each year of any abatements which the municipality plans to make or is considering, so that school divisions can take this into account in their budgeting. However, municipalities should retain the authority to grant an abatement, compromise, or refund at any time of the year, because municipalities need to be in a position to deal with such matters promptly, if they arise through the year.

Rural municipalities must currently obtain the approval of the Minister of Rural Development for all compromises and abatements, and the approval of the school division in regard to school taxes. Urban municipalities, on the other hand, are able to make such decisions on their own authority. **The Commission recommends that *The Rural Municipality Act*, be amended to provide rural municipalities with the same authority as urban municipalities in regard to compromises, abatements, and refunds.**

CHAPTER TWO

S.P.C. GRANTS AND SURCHARGES

1. BACKGROUND

If Saskatchewan Power Corporation (S.P.C.) were like the other provincial Crown corporations, it would pay a grant-in-lieu of taxes equivalent to full municipal, school, and other taxes based on the assessed value of its properties. However, the history of the Saskatchewan Power Corporation, and the evolution of the provincial electrical and natural gas systems have produced, instead, a complicated system of surcharges, grants, and other payments.

Electrical Surcharge

Under **The Power Corporation Act,** S.P.C. collects and remits surcharges as follows:

- 10% is added to the electricity bills of customers in cities at the request of council;and
- 5% is added to the electricity bills of customers in towns and villages at the request of council.

All cities, and all but 83 towns, villages, and resort villages have requested and receive the municipal surcharges on electricity. In 1985, the municipal surcharges collected on behalf of urban municipalities totalled $16.5 million.[1] These payments have increased at a compound average annual rate of 16.4% since 1973.

S.P.C. pays electric and natural gas grants as follows:

- 5% of electric revenues to each city served by S.P.C., with specified customer exclusions; and
- 5% of gas revenue to all cities and 85 towns and 3% of gas revenue to 13 towns served by S.P.C., with some customer exclusions.

In 1985, these electric and gas grants to urban municipalities totalled $16.3 million.

The electric and gas grants have increased at compound average annual rates of 16.9% and 18.3%, respectively, since 1973.

2. OBSERVATIONS

Some publicly owned utilities pay only service fees for municipal services actually provided. On the other hand, some public utilities pay grants-in-lieu of taxes on some aspects of its property, while others make payments based on a percentage of sales within a jurisdiction.

The fact that the municipal surcharge and gas and electric grants are offered only to urban municipalities effectively denies rural municipalities access to these sources of revenues.

Electric and gas grants are currently paid only to some urban centres. These grants are costs to S.P.C. and, as such, they are charged against the whole S.P.C. system and all customers pay for these expenditures. However, only some urban municipalities receive these payments and, therefore, there is a redistribution of income from residents and businesses in other urban centres and rural municipalities.

Because councils only need to initiate a one-time request to the Corporation to collect the surcharge on their behalf, questions have been raised concerning the accountability of municipal councils for this local tax on their residents and businesses.

The surcharge is, in effect, a municipal sales tax on electricity consumed within the municipality. The tax is paid directly by all consumers of electricity within the boundary of the municipality.

The surcharge is not a cost to S.P.C., since the Corporation simply acts as a collection agent for the municipality, and the amount is collected over and above the charge which S.P.C. would otherwise make.

The surcharge represents a major source of revenue for urban municipalities. The surcharge represents approximately 8.6% of municipal tax levies for cities and 9.1% for villages and towns.

The gas and electric grants are costs to S.P.C. and as such, they are charged against the whole S.P.C. system.

The gas and electric grants provide a major source of revenue for urban municipalities. The grants amount to the equivalent of 10.0% of municipal tax levies for cities, and 4.5% for villages and towns.

3. CONCLUSIONS AND RECOMMENDATIONS

The Commission recommends that the current system of municipal surcharges and electric and natural gas grants be discontinued and, in their place, all municipalities should be allowed to levy a municipal sales tax on electric and natural gas sales within their boundaries.

---

[1] See Appendix II-2 for a table of S.P.C. payments.

The Commission also recommends:

- **That municipalities should be allowed to set the percentage sales tax up to a maximum figure of 15% on electric sales and 5% on natural gas sales to be specified in legislation.**
- **That each municipal council which levies the sales tax should be required to pass a bylaw each year requesting S.P.C. to collect and remit the specified percentage sales taxes on its behalf.**

These recommendations recognize that the surcharge is, in reality, a local sales tax. Not only should there be fairness in terms of access of different types of municipalities to the tax base but, because it is a form of local taxation, individual municipalities should have the right to vary the rate of taxation (the surcharge percentage) to suit their local circumstances. An individual council should be able to set any rate up to the maximum specified in the legislation or to decide not to levy it at all.

By requiring municipalities to pass a bylaw each year requesting S.P.C. to collect and remit a certain percentage surcharge on electricity sold within the municipality, the electorate would be in a better position to hold their representatives accountable for their decisions.

The Commission recommends that the gas and electric grants be discontinued and restructured as municipal sales taxes on electric and natural gas sales within the municipality for four main reasons:

- The electric and gas grants are a cost to the Corporation and as such, they are reflected in the rates charged to all electric and gas customers, even though the grants are paid only to some urban municipalities. In effect, this redistributes income from rural and some urban customers to customers in those centres which receive the grants. The Commission believes this redistribution should be eliminated. By restructuring the grants as a municipal sales tax on electricity and natural gas in the same way as the municipal surcharge on electricity, the revenues received by a municipality would come from its own residents, not from consumers of electricity and natural gas elsewhere in the province.
- It retains a major revenue source for municipalities.
- It will treat all municipalities more fairly.
- Accountability to the electorate for this form of taxation will be promoted.

The Commission recommends that municipalities be the only local governments which have access to the proposed local natural gas and electrical sales tax bases.

To enable other local governments to tax the natural gas and electrical sales tax bases over and above the proposed maximum statutory rates for municipalities could lead to an excessive use of these tax bases.

The Commission recommends that S.P.C. pay full grants-in-lieu of taxes on all of its commercial property in Saskatchewan.

The Commission believes that S.P.C.'s commercial property is very similar to the commercial property of other Crown corporations and that it should pay full grants-in-lieu of taxes (approximately $2.1 million annually) on such property.

The Commission recommends continuation of the present practice whereby S.P.C. does not pay normal grants-in-lieu of taxes on S.P.C.'s power plants, transmission and distribution lines, gas caverns and compressors, and other industrial property.

In regard to electrical generating plants, the Commission notes that the assessments are very large (up to approximately $10 million), and that the grants-in-lieu of taxes would represent a major windfall for the few municipalities in which they are located.

There would be some merit in paying grants-in-lieu of taxes on the electrical and gas distribution systems. It would add over $133 million (based on the new assessment values) to the local property base of local governments. The assessment is broadly spread throughout Saskatchewan so there would be no major windfall for individual local governments.

On balance, however, the Commission recommends against the payment of grants-in-lieu of taxes on the distribution facilities because of the additional financial burdens it would place on consumers of electrical and natural gas and the fact that it would be out of step with practice in most parts of Canada.

The Commission recommends that standard rates of taxation, based on the weighted average sales tax rates, should be used in the urban revenue sharing foundation formula and the rural revenue sharing equalization formula, respectively, to determine the recognized local sales tax revenue from electricity and natural gas sales.

Because these are important sources of revenue they must be taken into account if there is to be fairness in those grant formulas.

CHAPTER THREE

COMMERCIAL/INDUSTRIAL TAX SHARING

1. INTRODUCTION

Commercial/industrial tax sharing is an arrangement under which the proceeds of the property taxation on a relatively large commercial or industrial establishment accrue not solely to the municipality in which the establishment is located but, instead, are allocated to a larger number of municipalities.

The three most common reasons for sharing the property tax revenues from a commercial or industrial establishment are:

- Service Costs

  The location of a commercial or industrial establishment in one municipality may create the need for services in neighbouring municipalities, and the shared revenues are intended to be used to assist in the financing of those services.

- Equalization

  The sharing of property tax revenues from a commercial or industrial establishment may be intended to enable municipalities to have greater equality in local tax rates and levels of services.

- Fair Tax Levels

  A municipality with a large commercial/industrial establishment may be in a position to finance all of its services with a relatively low mill rate.

2. MUNICIPAL TAX SHARING ON POTASH MINES

A. Background

There are nine rural municipalities in which potash mines are located. In those rural municipalities, the assessment from the potash mines averages 59% of the total assessment of the municipalities.

All urban and rural municipalities within an "area of influence" of a potash mine are eligible for sharing the property tax revenues from the potash mine. An area of influence is deemed to be the area encompassed by a circle with a radius of 20 miles, with its centre being the mine head.

The municipal mill rate applicable to the potash mine is in an average of the municipal mill rates levied by the rural municipalities within a 20 mile radius of the mine in the immediately preceding year.

Union hospital districts and school divisions do not participate in the potash sharing arrangements. Accordingly, the general mill rates struck by school divisions and union hospital districts apply to the potash mines in the same way as other properties within those jurisdictions.

Within each "area of influence", urban municipalities are allocated 10% of the proceeds and the remaining 90% is allocated to rural municipalities.

Within the respective rural and urban allocations, the proceeds are divided among individual municipalities on the basis of two different point systems.

Each urban municipality within the area of influence is assigned points based on the population of the municipality.

Each rural municipality within the respective areas of influence is given a number of "basic" points based on the square miles of territory of the municipality within the area of influence.

These basic points are then adjusted to take into account the mill rate in the municipality in the previous year.

B. Observations

The Commission has two major observations in regard to the potash tax sharing arrangements.

1) Breadth of distribution

   In 1984, a total of $4.1 million in property taxation from potash mines was raised from the 9 different rural municipalities in which mines were located. The proceeds were distributed among 41 rural municipalities and 46 urban municipalities.

   Slightly more than $2.3 million or 56% was returned to the 9 municipalities in which the mines were located and the balance (less approximately $8,000 allocated for administration costs of the board) was allocated to the municipalities in the different "areas of influence".

2) Encouragement for Higher Mill Rates

   The mill rate set by an individual rural municipality within an "area of influence" has an impact on the amount of money received under the potash tax sharing arrangements in two different ways:

- It affects the size of the pool of funds available for sharing. The mill rate applied to the potash mine (s) in the area is a weighted average of the previous year's mill rate of the rural municipalities within the area of influence.
- It affects that muncipality's share of the pool. The mill rate of a municipality affects the number of points it receives, and this in turn affects that municipality's share of the pool. The higher the mill rate of a municipality, the higher its share and the lower the share of the other municipalities.

C. Conclusions/Recommendations

- **The overall concept of distributing the revenues from the potash mines to a larger number of municipalities which are theoretically impacted by the mines in terms of direct or indirect service requirements has a great deal of merit.**
- The 10%/90% split between urban and rural municipalities is somewhat arbitrary, but the Commission has no basis upon which to suggest a different percentage.
- The 10 and 20 mile radii used in determining the allocation of the tax sharing pool among municipalities are arbitrary and cannot be expected to conform closely to the proportions of direct or indirect services the municipalities are required to provide.

  The Commission believes that the most important objectives behind the potash sharing arrangements are to have a broader distribution of the potash revenues to avoid unduly large windfall gains by individual municipalities and to maintain mill rates on potash mines which are not unduly low in relation to those of other payers of property tax throughout the province.

  In short, although the 10 and 20 mile radii are rather crude mechanisms, the Commission believes they have achieved their intended purpose to a considerable extent, and there is no obvious alternative that would guarantee better results.

- **The current point system under which the actual mill rate set by a rural municipality determines the amount received by that municipality should be amended to eliminate the inducement that currently exists for municipalities to have higher mill rates.** This can be accomplished by two changes:

  i) The mill rate applied to a potash mine should be the average rural municipal mill rate in the province as a whole.

  ii) The procedure under which the basic points allocated to a municipality are adjusted taking into account the actual mill rate of the municipality, should be eliminated.

- **The Commission recommends that a percentage of the revenues from potash mines be allocated to rural municipalities throughout the province to reduce the windfall presently going to certain rural municipalities.**

  The Commission came to this conclusion because the current sharing arrangements still leave the municipalities with potash mines with a major windfall. They are able to spend 46% more than the average municipality and still have mill rates averaging 10 mills lower than the simple rural municipal average.

  The percentage of municipal potash tax revenue which should be earmarked for broader distribution, and any consequent adjustments which may be required in the formula to distribute the remaining portions of the revenues should be subject to a separate study.

3. OTHER TAX SHARING ARRANGEMENTS

A. Power Generating Plants of the Saskatchewan Power Corporation

The Saskatchewan Power Corporation does not pay grants-in-lieu of taxes on its power generating plants. The Commission recommends that this policy continue, for two main reasons:

- Municipalities already have access to large amounts of revenue in regard to the electricity and natural gas utilities by virtue of the grants and surcharges that are payable.

- Huge windfalls would accrue to the municipalities in which the plants are located.

The Commission does recommend, however, that the Saskatchewan Power Corporation continue to make compensatory payments to municipalities in which the facilities are located and to other nearby municipalities, if applicable.

B. Commercial/Industrial Tax Allocation Board

The Commission recommends that legislation be developed to create a Commercial/Industrial Tax Allocation Board. It is further recommended that the members of the Local Government Board plus one representative each from S.U.M.A. and S.A.R.M. constitute the proposed board. This board would have the responsibility for determining the level and types of payments which the Saskatchewan Power Corporation should make on its power generating facilities, making recommendations to the provincial government regarding other potential establishments to be subject to tax sharing, and developing the necessary formulas or specifying the tax sharing arrangements.

CHAPTER FOUR

THE BUSINESS TAX

1. BACKGROUND

- The Business Tax Defined

  The business tax is an occupancy tax which is levied against the owner of a business. Whether or not the owner of the business also owns the building in which the business is located has no bearing on the amount of business tax levied.

  The business tax levy is an addition to the levy on the land and improvements. The business tax is generally considered to be part of the property tax.

  Business assessments in 1986 are estimated to be 1.7% of the total rural assessment and 8.4% of the total urban assessment. For the province as a whole, business assessments amount to approximately 5.9% of the total assessment.[1] The Commission estimates that roughly $38 million was raised in business tax across Saskatchewan in 1985.

- Two Systems in Saskatchewan

  Two systems of arriving at business assessments are used in Saskatchewan:

  — The Occupied Floor Space Method

  Under this method, average rates of return are determined for each type of business and these are converted to dollars per square foot. The business assessment for an enterprise is the number of square feet occupied by the enterprise, multiplied by the rate per square foot for that particular type of business. The schedule of business assessment rates is adjusted according to the population and amenities in the community.The business assessment rate is the same throughout a particular municipality, regardless of the location of the business within the municipality.

  — The Rental Value Method

  Under this method, the rental values of properties in various locations in a community are determined. The business assessment of an enterprise is the amount of space occupied by the business multiplied by a standard percentage of the rental value of the property in that particular location.

  Saskatoon uses the Rental Value Method while the Occupied Square Footage Method is applied to all other municipalities in Saskatchewan.

- Other Provinces

  Some type of business tax, over and above the tax levied on land and buildings, is levied in all provinces with the exception of Prince Edward Island and New Brunswick. In the latter provinces, the rates of taxation on commercial property are double and 1.5 times the rates respectively that apply to the residential sector; this has somewhat the same effect as having a separate business tax. Municipalities are required by law to levy business taxes in Newfoundland, Nova Scotia, Ontario and Saskatchewan. It is an optional form of taxation in other provinces.

  Business assessments are subject to levies by school divisions in Saskatchewan, Ontario, and Newfoundland, but not in other provinces.

- Percentage of Land and Buildings Method of Business Assessment

  Under this method, the business assessment is simply a percentage of the assessment of the land and buildings occupied by the business. The percentages may vary with the type of business. This method is used in Ontario and Nova Scotia.

- Business Tax Relative to Tax on Real Property

  The Commission obtained data on the current property taxes paid by all businesses in two towns, one with a population of approximately 560, and another with a population of approximately 1,200. The following information was obtained:

  — The average business tax was $713 in the small town and $734 in the larger town.

  — For every $100 in tax on land and improvements, there was an average of $41.60 of business tax in the small town and $40.40 in the larger town.

  — In terms of individual businesses, business taxes in the small town ranged from $8.40 to $114.00, for every $100 in taxes on land and improvements. In the larger town, the range was from $7.40 to $115.80.

- Relative Importance of Business Tax

  The 1986 business assessment in rural municipalities is 1.7% of total assessment, and the percentages for individual municipalities vary from 0.0% to 15.8%.Among villages and towns business assessment averages 7.2% of total assessment, but ranges between less than 1.0% and 15.1%. Among cities, the average is 8.6% and the range is from 5.9% to 11.3%.

---

[1] Saskatchewan Assessment Authority, preliminary 1986 assessments.

2. ISSUES

A. Existence of Business Tax

There are numerous arguments for and against the business tax:

- Rationale for the Tax

  Some suggest that there is no rationale for the business tax because businessmen already pay property tax on the land and buildings they occupy.

  The Commission believes that few taxes have a rationale other than to raise revenue for the purpose of financing public services and, in this sense, the business tax is no different than many other taxes.

  The Commission believes that a more critical question is whether the business tax is or can be a fair tax.

- Fairness

  Some suggest that the business tax is unfair because certain groups such as farmers and people on salaries are exempt from it, and because it must be paid regardless of the amount of profit or loss experienced by the business.

  The Commission recognizes that the business tax, like the tax on land and improvements, is insensitive to changes in ability to pay and is regressive for those with low incomes. It was for this reason that the Commission recommended an income-based property tax credit that would apply to the tax on business as well as to the tax on land and buildings.

  The less-than-universal application of the business tax is a legitimate criticism.

- Leakages

  Some suggest that the business tax should be retained because its elimination would cause various "leakages" from the Saskatchewan economy.

  "Leakages" from the Saskatchewan economy would arise if there were a reduction in taxes which can be claimed in the computation of income tax.

- The Passing on of the Business Tax to the Consumer

  Some defend the business tax on the basis that businessmen can pass on the tax to their customers.

  While the Commission believes that this is a legitimate consideration, it must be recognized that the ability to pass on increased costs, including the business tax depends on the competitive position of the business.

- Business Environment

  Some defend the business tax because the municipality provides an environment within which businesses can operate.

  The Commission does not believe this is a clear cut defense for the business tax since people in the community are, in general, as much dependent on the business sector as business is dependent on the community within which it does business.

B. Shifts in Tax Load

There are a number of shifts in tax load which would take place if the business tax were eliminated.

- Shifts Within the Municipality

  Elimination of the business tax would bring about a shift away from the commercial/industrial sector onto the residential sector.

  In communities where the business tax amounts to about 10% of the total tax proceeds, there would be a 15% reduction in the tax load in the commercial/industrial sector and an 11% increase in the residential sector.

- Shifts Among Urban Municipalities and Among Rural Municipalities

  The equalization formulas have the effect of compensating municipalities, to some extent, for the size of their tax base relative to their financial responsibilities. Elimination of the business tax would bring about changes in equalization grants and, indirectly, changes in local tax rates, the amount of which would be dependent on the relative amount of business assessments in the respective municipalities.

- Shifts from Urban Municipalities to Rural Municipalities

  Because of the operation of the school foundation formula, the elimination of the school portion of the business tax would cause a substantial shift of the tax burden from those who pay property taxes in urban municipalities to those who pay property taxes in rural municipalities.

The Commission does not believe that shifts in taxation are valid reasons in and of themselves, for retaining the business tax. The question is whether or not the shifts are fair.

There are also ways of compensating for the shifts through adjustments in provincial payments to municipalities and adjustments in assessments.

C. School Portion of Business Tax

Some suggest that the municipal portion of the business tax should be retained, but that the school portion and possibly other portions should be eliminated.

The proponents of this approach argue that businesses receive direct municipal services over and above the services that other residents of the municipality receive, and that this justifies the municipal portion of the business tax.

The Commission does not believe that a solid case can be made to support the contention that the business sector receives more in municipal services than the residential sector. In any event, business taxes for individual businesses are neither intended to be proportional, nor are they in fact proportional to the services they receive.

D. Uniformity of Business Assessment Systems

There are two different systems of arriving at business assessments in Saskatchewan, the Rental Value Method, and the Occupied Floor Space Method. In view of the fact that the City of Regina uses its own schedule of rates under the Occupied Floor Space Method, some would suggest that there are actually three variations of business assessments in Saskatchewan.

It has been argued that the utilization of different systems can result in different levels of business assessments in different communities, thereby putting businesses in some communities at a competitive disadvantage.

E. Level of Business Tax

In the two towns surveyed, the business taxes averaged about $40.00 for each $100 of tax on land and improvements, and this was considerably larger than Commission members would have assumed prior to examining the data.

The Commission notes, however, that on an overall per capita basis, business taxes in Saskatchewan are substantially lower than the Canadian average.

F. Abatements

The Commission notes that the ability of municipalities to abate taxes can also create different levels of business taxation among municipalities and cause shifts in taxation within the municipality and among municipalities for school and hospital tax purposes.

G. The Choice of Business Assessment Systems

If there is to be a common basis of business assessment throughout the province, the question arises as to which system should be used.

3. CONCLUSIONS

The Commission recommends:

- **That the business tax be continued.**

  On balance, the Commission believes the arguments for and against the business tax point to the continuation of at least some form of business tax.

  The Commission has reached this conclusion not with the view that the status quo should be maintained but, rather, that a number of changes need to be made to the business tax as it is now known in Saskatchewan.

- **That the business assessment continue to be subject to all of the levies to which assessments of land and improvements are subject.**

  The Commission does not accept the argument that the business tax is justified for municipal, but not for school or other local government purposes. The essential justification of any tax is that it is a means of raising revenues to finance public services, and there is little or no basis for the argument that it is more justified as a means of financing one type of local government, as opposed to another.

One of the reasons why some propose the elimination of the school portion of the business tax is to bring about a reduction in the level of business tax. However, other provinces in which the business tax is not paid to school division have higher overall business taxes per capita than does Saskatchewan.Access to the business tax base by school divisions does not mean that business taxes must necessarily be high.

- **That all municipalities be required to use the same system of business assessment.**

  The Commission believes that there would be merit in having the same type of business assessment system used throughout Saskatchewan, just as is done in the assessment of land and improvements. In this way, intercommunity tax competition can be avoided and competitive advantages or disadvantages for businesses arising from the property tax will be kept to a minimum.

- **That the current methods for arriving at business assessments in Saskatchewan be discontinued.**

  The Occupied Floor Space Method has serious flaws because it does not reflect the market place, and the potential profitability of different locations.

  The Rental Value Method is sound, but it is expensive to maintain and is impractical in the many municipalities throughout the province which do not have an active rental market.

- **That Saskatchewan implement the Percentage of Real Property Assessment Method for business assessments.**

  This method is simple and easy to understand. It is also capable of being used in all municipalities.Providing land assessments are kept up-to-date, this system also reflects the market place and potential profitability of various locations. Different percentages can be utilized for different types of businesses in order to control shifts in tax load or to bring about the relative tax levels that are deemed to be appropriate for different types of businesses.

- **That a specific review be done in regard to the business assessment relative to other assessments by the Saskatchewan Assessment Management Agency.**

  It is the responsibility of the Saskatchewan Assessment Management Agency to arrive at the method of determining valuations for all classifications of property. It is also the responsibility of S.A.M.A. to arrive at the relative weightings to be applied to those valuations in arriving at assessed values. These relative weightings determine the allocation of the tax load among all categories of business and real property.

- **That municipalities not have the authority to implement across-the-board abatements of business or other taxes.**

  The ability of municipalities to implement across-the-board abatements of all business taxes has far greater potential for bringing about major differences in business tax levels among municipalities than differences in business assessment systems. Municipalities are able to enter into general tax competition, and the Commission is of the belief that this is counter-productive and not in the interests of local governments or the communities in general.

  Apart from the obvious shifts of the tax load which such abatements produce within individual municipalities, it also causes shifts of the tax load onto the taxpayers of the other municipalities for school and hospital taxes.

  Accordingly, the Commission believes that municipalities should not have the authority to implement across-the-board abatements. The authority to grant selective abatements, on the other hand, should be continued.

PART III

REVENUE SHARING AND THE SCHOOL FOUNDATION SYSTEM

CHAPTER ONE

THE REVENUE SHARING CONCEPT AND THE ESCALATOR

1. BACKGROUND

A. The General Concept

Under revenue sharing, a major amount of the overall funding which the provincial government provides to municipalities is determined by a formula which is intended to reflect the performance of the provincial economy, as measured by the growth in selected provincial tax bases.

The provincial government first establishes a pool of monies which it believes is of an appropriate magnitude for distribution to municipalities. In Saskatchewan, separate pools were established for urban, rural and northern municipalities. Once the pools are established, the sizes of the pools change from year to year in accordance with the operation of an "escalator" or "escalator index".

The determination of the size of the revenue sharing pools is separate and distinct from the question of the mechanisms which are used to distribute the monies in the pools among individual municipalities. These latter mechanisms are referred to as "distribution formulas", and are dealt with in subsequent chapters.

Revenue sharing is quite different from regular grant programs. The amount to be paid by the provincial government under various grant programs is determined by the Cabinet each year, through the regular budgetary and decision-making processes. The government is able to exercise full discretion and judgment in regard to the amount of monies to be paid in grants.

On the other hand, once the escalator formula has been placed in legislation, the size of the revenue sharing pool is out of the hands of the provincial government, except through legislative amendment. The formula, not discretionary decisions by the provincial government, determines the size of the pools from year to year.

The revenue sharing program accounts for the vast majority of operating assistance provided to municipalities by the provincial government.

B. Objectives

The objectives behind revenue sharing are:

- To provide another major source of revenue to supplement the property tax.
- To provide a source of revenue that would allow municipalities to share in the broader tax base that comes with economic growth.
- To provide an increase in the level of independence of municipalities.
- To promote a partnership between the provincial and municipal governments in the provision of public services.

  By being prepared to accept the implications of changes in revenues arising from the performance of the economy municipalities accept additional fiscal responsibility.

C. The Escalator

The escalator index specified in the revenue sharing legislation is a three year moving average of the year-over-year changes in the following four major provincial tax bases:

- Personal Income Tax Base

  This is defined as the amount of federal basic tax allocated to Saskatchewan.

- Corporate Income Tax Base
  This is defined as the amount of corporate taxable income allocated to Saskatchewan.

- Education and Health Tax Base
  This is defined as the value of all retail sales in Saskatchewan.

- Gasoline Tax Base
  This is defined as the gross volume of all fuel sold in Saskatchewan.

In determining the value of the escalator in a given year, the year-over-year percentage change for each of the previous three years is calculated for each of the four tax bases. These percentage changes are then averaged for each tax base and these averages are summed to yield the value of the escalator index. The escalator is expressed as a percentage increase or decrease. The size of a revenue sharing pool is in a particular year the previous year's pool multiplied by this percentage change.

D. History

The revenue sharing programs for urban and rural municipalities were introduced in 1978-79 when the pools were initially established by the consolidation of a number of separate grant programs, along with some additional monies. A major addition to the pools was also made in 1979-80.

The escalator brought about an increase of 7.76% in the revenue sharing pools when it was first introduced in 1980-81, and an increase of 10.20% in 1981-82.

In 1982-83, the escalator would have produced an increase of 8.33%, but the provincial government added monies to the pools to bring about increases of 11.5%.

In 1983-84, the escalator would have brought about an increase of 5.59%, but instead the provincial government added 7.0% to the revenue sharing pools.An increase of 5.0% was legislated in 1984-85, and there was no increase provided in 1985-86.

E. Other Provinces

The majority of provinces have some form of "revenue sharing" transfers to municipalities based on a variety of different escalator indices.

2. EVALUATION OF REVENUE SHARING

A. The Basic Concept

Those who do not support the revenue sharing concept use the following main arguments:

- Provincial decision-making is restricted by having a formula determine the level of transfer payments.
- Local governments can better secure increases in their funding through normal political processes.
- Transfers to municipalities can become out of synchronization with the provincial government's ability to finance the transfers and, also, with municipal governments' need for financial support, because of the lagged effect of the escalator.
- Revenue sharing produces effects which are often opposite to counter-cyclical financing.

Those who favour revenue sharing use the following arguments:

- Revenue sharing elevates the status of municipalities to a position of partnership with the provincial government.
- The use of an escalator index enhances the predictability of provincial transfers.
- There is greater security in revenue sharing.
- Municipalities and their organizations require less effort for lobbying provincial politicians and officials to ensure the continuation of programs and appropriate funding levels.

On balance, the Commission believes that the arguments in favour of the revenue sharing concept outweigh the arguments against it and recommends that it be continued.

B. Alternative Escalators

The Commission evaluated a number of escalator formulas against the following criteria:

- Responsiveness to changes in the economy
- Predictability

- Avoidance of Provincial Tax Policy Decisions

  Decisions by the provincial government on its own tax policy should have little or no impact on the escalator and, hence, the amount to be transferred to municipal government.
- Stability
- Simplicity

The escalators examined included:

- The current escalator (the tax bases for the personal and corporate income tax, the sales tax and the gasoline tax).
- Total provincial government revenue (all provincial revenue sources).
- Total provincial government expenditures.
- 50% total provincial government revenues and 50% total provincial government expenditure.
- Dedicated taxes (dedicating or earmarking the yield from one or more points of certain taxes for transfer to local governments).
- Three tax bases (the current escalator minus the fuel tax).
- Tax Bases and Resource Revenues (include resource revenues in the tax bases).
- Substitute for the fuel tax base (replace the fuel tax base in the current escalator).

The Commission concluded that total provincial government revenues would be an inappropriate escalator, largely because it would tie the escalator to provincial tax policy decisions. The Commission concluded that there would be no logical rationale to using provincial expenditures to calculate the escalator index. The revenues of the provincial government would not enter into the calculations and it would not be "revenue" sharing. The option of using the average percentage change of total provincial revenues and expenditures was rejected because it combines the disadvantages of both of the options.

The Commission also rejected adding resource revenues to the remaining tax bases because of the volatility of these revenues and the direct linkages to provincial resource policy that would result.

While the dedicated tax approach would likely be better understood than the current escalator index, the Commission concluded that it would be inappropriate because it would be influenced by provincial tax policy decisions.

The Commission believes that the best approach to the escalator index is to use a 3 year average of the performance of major provincial tax bases. Using tax bases would avoid tying the escalator index to provincial tax policy decisions. In addition, the 3 year averaging provision would add a degree of stability to the index by smoothing out the peaks and troughs of changes in the performance of the tax bases.

The Commission believes that four tax bases are preferable to three tax bases, because less emphasis is attached to each tax base, particularly the more volatile income tax bases. The four tax bases used to determine the escalator index should be the personal income tax base, the corporate income tax base, the Education and Health Tax base, and the fuel tax base.

In effect, the Commission has concluded that the original approach to the escalator index is still appropriate and remains the best approach among the various alternatives considered.

3. CONCLUSIONS/RECOMMENDATIONS

The Commission has concluded the following:

- **The escalator index concept is sound and workable, and should continue to be used for determining the aggregate amount of funding under revenue sharing.**
- **The escalator index concept should not be imposed on other programs of financial assistance, unless there is mutual support for the concept from both the recipients and the provincial government.**
- **The escalator index continue to be determined by the three year moving average of the annual changes in four major provincial tax bases: the personal income tax base, the corporate income tax base, the Education and Health Tax base, and the fuel tax base.**
- **The Commission recommends that a new data series and definition of the volume of fuel sold in Saskatchewan should be adopted to measure the fuel tax base.**

CHAPTER TWO

RURAL REVENUE SHARING

This chapter deals with the formulas that are used to allocate the rural municipal revenue sharing pool among individual rural municipalities.

1. TWO MAIN COMPONENTS

Revenue sharing payments to rural municipalities fall into two major categories:

- unconditional payments; and
- conditional payments.

The 1985-86 allocations were as follows:

	1985 - 86	% of Total Allocation
Unconditional Payments	$16.7 million	35%
Conditional Payments	30.5 million	65%
Total Allocation	$47.2 million	100%

2. UNCONDITIONAL GRANTS - A DESCRIPTION

There are three basic components to the unconditional revenue sharing payments paid to rural municipalities. The 1985-86 allocations were:

	1985 - 86	% of Unconditional Allocation
Hamlet Grant	$ 706,000	4.2%
Basic Grant	2,761,000	16.5%
Equalization Grant	13,234,000	79.2%
Total	$16,701,000	100.0%

A. Equalization Grant

1) Purpose of Equalization

Some municipalities have high expenditure requirements, but have a small tax base from which to finance those expenditures. Other municipalities have a large local tax base and have considerably less difficulty in meeting their expenditure requirements.

The equalization grant is designed to provide more assistance to the "least wealthy"[1] municipalities and less or no assistance to the "most wealthy" municipalities, in an effort to promote greater equality among municipalities in their ability to provide municipal services at a reasonable local tax rate.

2) How Equalization is Calculated

To determine the equalization grant, an objectively based estimate is first made of the annual expenditures which each municipality is required to make in order to provide a reasonable set of services. This amount, after deducting special non-tax revenues (mainly grants-in-lieu of taxes), is called the "annual service cost". The amount of local revenue which can be raised by applying a standard mill rate to the equalized assessment of each municipality is also determined. This standard mill rate, which was set at 75 mills for 1985, is deemed to represent the level of local revenue that can be raised without undue hardship. The amount of equalization grant to a municipality is based on the difference between the annual service cost and the amount which can be raised by the application of the standard mill rate to the equalized assessment. The larger difference the larger the grant.

Municipalities which could finance their standardized expenditure requirements with 75 mills or less receive no equalization grant.Municipalities which would have to levy a mill rate higher than 75 mills in order to finance their standardized expenditure requirements receive a grant proportional to the extent to which the mill requirement exceeds the 75 mills.

3) Used Only to Calculate Grants

The annual service cost and the standard mill rate are used only for the purpose of calculating grants. Municipalities are free to make their own decisions on the level of expenditures they feel are required and the local mill rate which they are prepared to levy.

4) Standard Annual Expenditure Requirements

There are several components to the annual expenditure requirement used in the calculation of the equalization grant for an individual municipality.

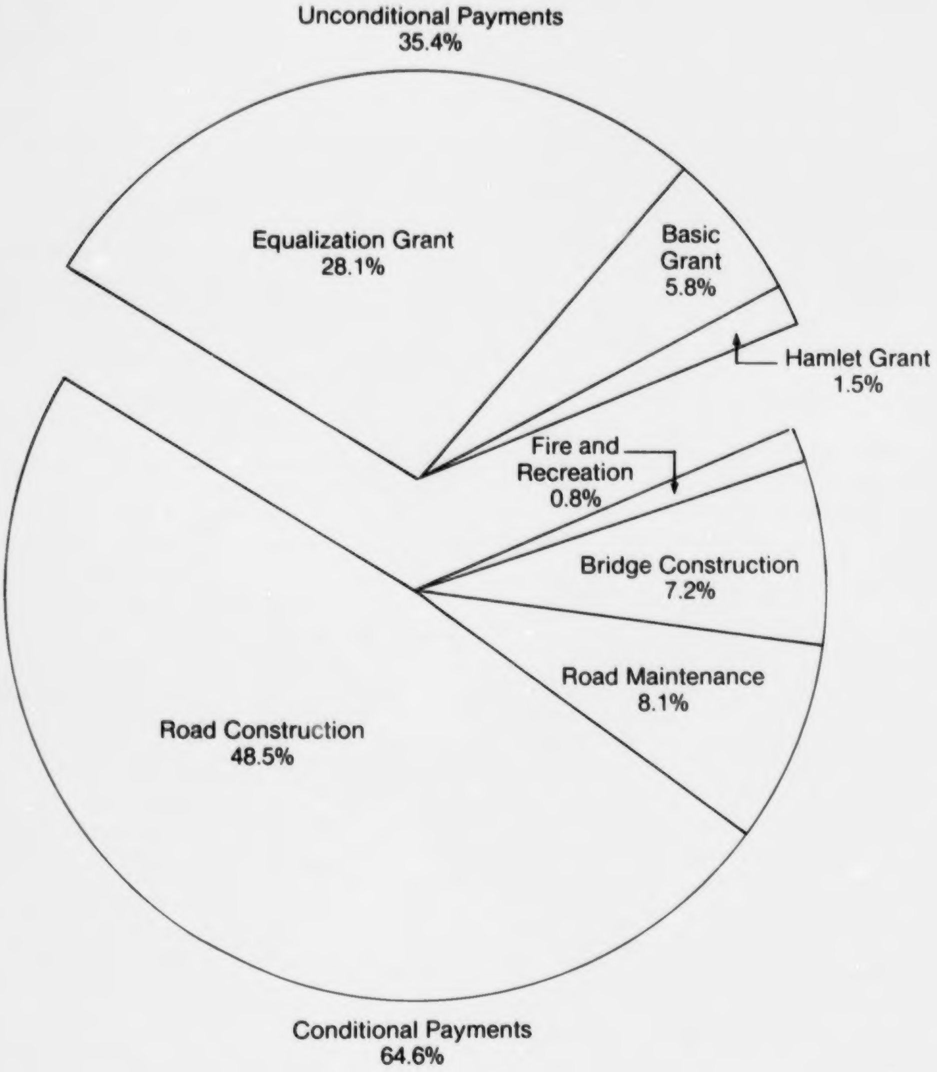
i) Administration.

ii) Road Construction - based on the kilometers of different classifications

---

[1] In the remainder of this report, the term "least wealthy" is used to describe local governments which have a relatively low fiscal capacity or revenue base in relation to the cost of services they are expected to provide, while the term "most wealthy" is used to describe local governments with a relatively high fiscal capacity relative to the expenditures they are expected to make.

CHART III-1
PERCENTAGE DISTRIBUTION OF RURAL REVENUE SHARING
1985



of roads required in each municipality and the cost of construction in the municipality.

iii) Road Maintenance - standard amounts are allowed for surface maintenance, snow removal, right-of-way maintenance and regravelling.

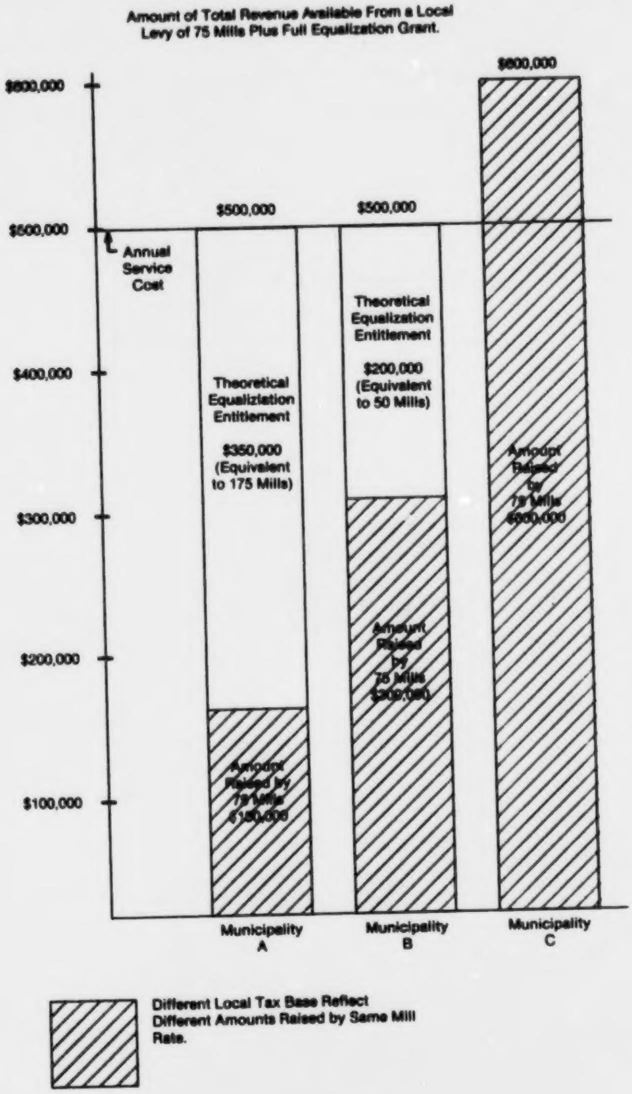
iv) Bridge Construction and Maintenance - based on the number and span of bridges in the municipality.

The standard annual expenditure requirement is the sum of the foregoing components. The annual service cost is this sum minus conditional grants available to the municipalities for the various components of expenditures.

5) Pictorial Description of Equalization Concept

Chart III-2 is a pictorial description of the equalization concept which operated in 1985 under rural revenue sharing. It is assumed that municipality "A", municipality "B", and municipality "C" each have an annual service cost of $500,000. It is assumed, however, that they have quite different local tax bases or fiscal capacities to meet the expenditures required in their respective municipalities. It is assumed that municipalities "A", "B" and "C" have assessment bases of $2,000,000, $4,000,000 and $8,000,000, respectively.

CHART III-2
DESCRIPTION OF EQUALIZATION CONCEPT - FULL EQUALIZATION



With a mill rate of 75 mills, municipality "A" would raise $150,000. Its theoretical equalization grant entitlement is $350,000, which is the full difference between the annual service cost of $500,000 and the $150,000 which can be raised locally by 75 mills. If municipality "A" received the full $350,000 in equalization, it would have enough revenue to meet its annual service cost with a local mill rate of 75 mills.

With a mill rate of 75 mills, municipality "B" would be able to raise $300,000, more than twice as much as municipality "A". A full theoretical equalization grant of $200,000 would provide the municipality with enough revenue to enable it to finance its annual service cost with a mill rate of 75 mills.

Municipality "C" would raise $600,000 with a mill rate of 75 mills. This is more than sufficient to meet the $500,000 in annual service cost, and no equalization grant is required.

8) Partial Equalization

In 1985, the rural revenue sharing pool was large enough to provide only 43.7% of the requirement for full equalization. Accordingly, each municipality received an actual equalization grant of 43.7% of its theoretical entitlement. See Chart III-3.

Instead of receiving an equalization grant of $350,000, municipality "A" receives $152,950. A levy of 75 mills plus the actual equalization grant would leave municipality "A" $197,050 short of the annual service cost. The municipality would be required to levy 173.5 mills if it wished to spend at the level of the annual service cost.

Municipality "B" receives an equalization grant of $87,400 instead of its theoretical entitlement of $200,000. Municipality "B" would have to levy a mill rate of 103.2 mills to meet its annual service cost.

Municipality "C" would be able to meet the annual service cost of $500,000 with a mill rate of 62.5 mills even though it received no equalization grant.

Municipalities which would have to levy exceedingly high mill rates in order to meet their annual service cost are likely to choose to have a lower level of services and expenditures in order to keep the mill rate within reason.

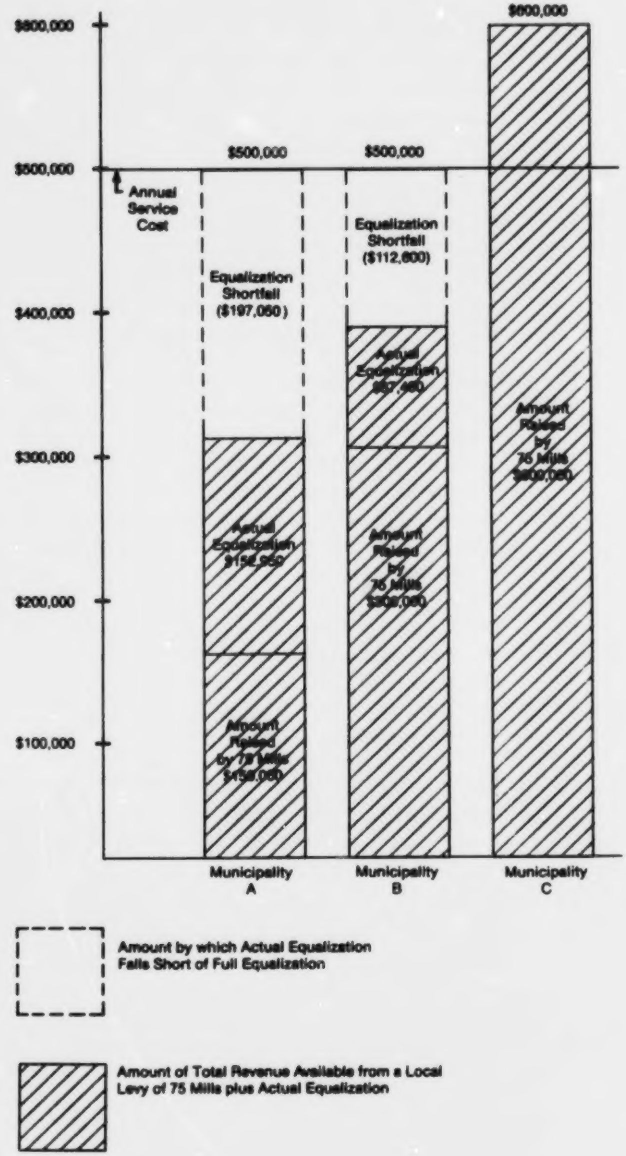
B. Basic Grant

Each rural municipality receives a relatively small grant which is tied to the annual service cost of the municipality. The size of the local tax base does not enter into the calculation of the grant.

In 1985, the amount of basic grant was the greater of $3,000 or 2.7721% of the annual service cost of the municipality. On average, municipalities received approximately $9,200, under this component of revenue sharing.

CHART III-3

DESCRIPTION OF EQUALIZATION CONCEPT - PARTIAL EQUALIZATION



C. Organized Hamlet Grant

Organized hamlets within rural municipalities receive basic and per capita grants identical to those which urban municipalities of the same population receive.

A total of $706,000 was assigned to the hamlet grant for 1985 for distribution among 149 organized hamlets.

3. CONDITIONAL GRANTS - A DESCRIPTION

Conditional payments represent approximately 65% of the payments made to rural municipalities. In 1985, the major categories of conditional grant were:

• Road Construction/Reconstruction	$22.8 million
• Road Maintenance	3.8 million
• Bridge Construction	3.4 million
• Intermunicipal Fire and Recreation Programs	0.4 million
TOTAL	$30.4 million

A. Road Construction/Reconstruction

The Department of Rural Development has developed a proposed network of rural municipal roads consisting of approximately 103,000 kilometers of local access and land access roads, and approximately 54,000 kilometers of "designated" roads.

The local access and land access roads are intended to provide a means of access to the farmsteads and the land respectively, and are not eligible for assistance under conditional revenue sharing.

The designated roads are eligible for construction and reconstruction grants and, in 1985, approximately 75% of the conditional funding under rural revenue sharing was provided for this purpose. The main categories of designated roads which are eligible for construction and reconstruction grants are:[2]

- Grid Roads (about 14,000 kilometers designated)
- Primary Grid Roads (about 8,000 kilometers designated)
- Main Farm Access Roads (about 30,000 kilometers designated)
- Other (industrial, resort, regional park and Indian Reserve access roads — about 2,300 kilometers designated)

There are three main factors which determine the amount of grant which a municipality will receive for the construction or reconstruction of a road which is part of the designated network.

- Cost of Construction in the Municipality

  The grants are paid on the basis of the actual costs incurred in constructing individual sections of road.

---

[2] See **Final Report** — main volume for a more detailed description of the various categories of roads.

- The Wealth of the Municipality

  Assistance for main farm access roads varies between 40% and 60% depending upon the relative wealth of the municipality.

- The Type of Road

  Some types of designated roads are eligible for a grant of an additional percentage of approved cost, over and above the basic percentage that applies to main farm access roads.

Roads must be built to specified standards before they are eligible for grant support.

B. Road Maintenance

Maintenance grants are paid on all roads which are part of the designated road network on which construction grants are paid, and which have been constructed and maintained to standard.

C. Bridge Construction

Grants are paid for bridge construction on the basis of a varying percentage (basically between 20% and 80%) of the actual cost of constructing the bridge.

The grant percentage varies according to the number of bridge units required in the municipality in relation to the assessment of the municipality in question.

D. Intermunicipal Fire Protection and Recreation Programs

Through conditional grants, rural municipalities are encouraged to co-operate with other rural municipalities and with urban municipalities in the provision of fire protection services and in meeting the operating and maintenance costs of recreation facilities.

E. Regravelling Programs

In 1986-87, a one year, $6.5 million regravelling program was introduced to assist rural municipalities in maintaining the designated road network. The regravelling program will be funded under rural revenue sharing by redirecting the amount of unspent conditional road construction/reconstruction grant allocations.

4. COMMENTS/EVALUATION - UNCONDITIONAL GRANTS

A. Equalization Structure and Concept

The Commission is impressed with the structure and underlying principles of the rural revenue sharing equalization formula. The approach of basing the grant on the difference between annual expenditure requirements and the amount which the municipality can reasonably be expected to raise locally is fundamentally sound. Its primary objective of enabling each municipality to provide a common standard of services at a reasonable local mill rate, regardless of the size of the local tax base is sound. By paying the equalization grant unconditionally, local independence or autonomy of rural municipal government is promoted.

The methods used to determine the expenditure requirements are highly objective. There is a minimum of subjective judgments involved on the part of those who construct the components of the formula each year.

B. Sufficiency of Equalization

Although the equalization formula itself is fundamentally sound, the failure to provide full equalization entitlements results in serious financial inequities among rural municipalities. The most wealthy municipalities with large local tax bases are able to have high levels of municipal services with relatively low local tax rates. The least wealthy municipalities with small local tax bases, on the other hand, are forced either to have extremely high local tax rates in their effort to provide comparable services, or they must provide low levels of services.

1) Hypothetical Municipalities

   For three hypothetical municipalities, the impact of paying only partial equalization was described earlier and the impact was displayed in Chart III-3.

2) Actual Municipalities

   For purposes of illustration, the 15 most wealthy municipalities are compared with the 15 least wealthy municipalities. The mill rate which a municipality would have to levy in order to finance the standard annual expenditure is used as a measure of relative wealth of municipalities.

In the absence of conditional or unconditional grants, the 15 most wealthy municipalities could meet their standard annual expenditure requirements with mill rates averaging 65.5 mills, while the 15 least wealthy municipalities would require an average of 303.2 mills. This shows the gross inequity which would prevail if there were no provincial assistance to municipalities. (See Appendix III-1. Appendix III-10 in the **Final Report** - main volume lists all municipalities.)

The availability of conditional grants reduces the number of mills required locally, and because of the relatively low tax base of the least wealthy municipalities, it means more in mills for these municipalities. The most wealthy municipalities could meet their annual expenditure requirements with mill rates averaging 53.7 mills while the least wealthy mnicipalities would require an average of 202.2 mills. It is clear, therefore, that even after the conditional grants have been paid, there remains a major disparity between the most wealthy and least wealthy municipalities.

None of the 15 most wealthy municipalities were eligible for equalization grants in 1985, but the 15 least wealthy municipalities received equalization grants which were equivalent to an average of 55.6 mills. Even with these payments, the least wealthy municipalities would still require an average of 146.6 mills to meet their annual expenditure requirements, while the most wealthy municipalities would still require an average of only 53.7 mills. This large difference in mill rate requirements, after taking into account both the conditional shared cost grants and equalization grants, shows that a major inequity prevails in the allocation of revenue sharing monies among individual rural municipalities.

If the full equalization grant to which each municipality is theoretically entitled were actually paid, all 260 of the rural municipalities eligible for equalization would be able to meet their standard annual expenditure requirements with a mill rate of 75 mills. In other words, **full application of the present equalization formula would greatly improve the overall degree of equalization and fairness in the financing of municipalities.**

3) Difficult Choices

The municipalities in the least wealthy category are faced with difficult choices. If they endeavour to provide the standard level of services envisaged in the equalization formula, they can only do so at mill rates which are higher than average and much higher than the most wealthy municipalities. These councils are likely to opt for lower expenditure levels simply to keep their mill rates within reason.

Table III-1 outlines the types of actual choices made by municipalities. On average, the least wealthy municipalities spent only 73.3% of the standard annual expenditure, yet had mill rates which exceeded those of the most wealthy municipalities by 69.6%. On average, the most wealthy municipalities spent 29.1% more than the standard annual amount, but had mill rates which were only 58.9% of those of the least wealthy municipalities.

4) Summary

In short, there are serious inequalities among rural municipalities in their ability to provide reasonable standards of service at reasonably comparable local mill rates because the equalization formula, which is fundamentally sound, is not fully applied.

C. Components in the Equalization Formula

1) Non-Transportation Items

The Commission notes that the equalization formula recognizes expenditures for only two main functions: administration and transportation.

The Commission believes that there would be merit in an examination of possible addition of other categories of recognized expenditures to the formula. Any such additional items should be based on objective criteria and should be recognized unconditionally.

2) Special Circumstances

Some municipalities are faced with special circumstances that are not automatically reflected in the equalization grant. For example, several municipalities have expressed concern about the additional road maintenance costs in the oil fields.

The Commission recommends the inclusion of objectively determined additional maintenance and reconstruction expenditures as special items for recognition in the equalization grant calculation where conditions warrant.

TABLE III-1
COMPARISON OF ACTUAL EXPENDITURES AND MILL RATES MOST WEALTHY AND LEAST WEALTHY MUNICIPALITIES

	Average for the 15 Most Wealthy Municipalities	**Average for the 15 Least Wealthy Municipalities**
1) Gross Theoretical Mill Rate Requirement	65.5 mills	303.2 mills
2) Standard Gross Annual Expenditure Requirement	$521,539	$511,383
3) Gross Actual Expenditures	$673,489	$374,755
4) Gross Actual Expenditures as a Percentage of the Standard	127.2%	73.3%
5) Actual 1985 Mill Rates	64.9 mills	110.1 mills

Item 1) These are the mill rates which would be required for municipalities to finance their standard gross annual expenditure requirement in the absence of either conditional or unconditional grants.

Item 2) These are the total gross annual expenditure requirements of municipalities as defined under the 1985 equalization calculation prior to deducting conditional grants. The standard unit costs used in the 1985 formula were based on an average of 1981 to 1983 expenditures.

Item 3) These are the total gross expenditures of municipalities from their operating accounts, averaged for the three year period, 1982 to 1984.

Item 4) This is Item 3 as a % of item 2).

Item 5) These are equalized mills based on equalized assessments.

NOTE: See Appendix III-11 **Final Report** — main volume for a listing of individual most wealthy and least wealthy municipalities.

3) Administration

A three year average of the actual administration costs incurred by individual municipalities is used in the equalization formula. Decisions to spend more or less money on administration have a direct impact on the municipality's equalization grant entitlement.

The Commission recommends that the average administration expenditures for comparably sized rural municipalities should be used in determining the standard annual expenditure requirement.

D. Basic Grant

The Commission recommends that the basic grant be discontinued and that the $2.8 million be distributed to municipalities through the equalization formula. For municipalities with mill rates as low as 23 mills to receive a basic grant, while other municipalities struggle with mill rates as high as 140 mills seems to be a misplacement of priorities.

E. Hamlet Grant

The Commission believes there is merit in providing a degree of comparability of treatment between organized hamlets and urban municipalities of the same size.

The Commission recommends the retention of the per capita grant for organized hamlets.

5. COMMENTS/EVALUATION - CONDITIONAL GRANTS

A. Road Construction/Reconstruction Grants

1) Designated Road Network

The concept of planning a designated municipal road network for the province as a whole is highly commendable. Certain roads need to be planned on an intermunicipal basis to ensure that the transportation needs of people living in all municipalities can be met in the most efficient way possible.

Conditional funding is appropriate to ensure an integrated provincial system of municipal roads with common standards.

2) Equalization

Three factors serve to limit the

amount of equalization under the shared cost programs:

i) The basic range of assistance (40% to 60%) is relatively small.

ii) Additional percentages of assistance are paid, depending upon the classification of the road.

This has the effect of narrowing the relative differences in amounts of support provided to municipalities of greatly differing wealth.

iii) Additional percentages of assistance are paid if costs per kilometer exceed certain levels. Because the criteria have not been changed since 1960, inflation has insured that every municipality, not just those with higher than average construction costs, now receives the additional percentages.

In order to finance its share of annual construction costs, the wealthy municipalities would have to levy on average 23.0 mills, whereas the least wealthy municipalities would require 93.5 mills.

If there were complete equalization in the conditional road construction grant programs, it would cost a similar number of mills for all municipalities to finance their local share of standard annual construction costs.

3) Local Decision-Making

The provision of grants for road construction equivalent to 70% or more of expenditures provides a very strong encouragement for the construction of designated roads relative to expenditures on other items.

B. Maintenance Grants

Maintenance grants in 1985 were estimated at approximately $3.8 million, or about 12% of conditional grant allocations.

Conditional maintenance grants help to ensure that the huge investment in designated roads is protected by promoting ongoing maintenance of those roads up to specified standards.

Because maintenance grants are paid only on designated roads which have actually been constructed, they provide an incentive for construction of the designated system.

C. Bridge Grants

The Commission believes that the system of providing assistance to municipalites for bridge construction is sound. The range of assistance is sufficiently wide (20% to 80%) to provide a meaningful measure of equalization.

D. Intermunicipal Fire Protection and Recreation Programs

These grants amount to only 1.4% of the conditional allocation and 0.9% of the total revenue sharing pool.

1) Recreation Program

The original objective behind the conditional recreation grant program was to promote intermunicipal co-operation in the planning of recreation facilities and sharing of their operating and maintenance costs. The fact that 70% of rural municipalities and 60% of urban municipalities are parties to agreements under this program could be pointed to as an indication of the success of the program.

The Commission does not believe that the program has had a large impact, but at the same time, whatever impact it has had has been in an appropriate direction.

2) Fire Protection Program

The intermunicipal fire protection program was likewise designed to promote intermunicipal co-operation and cost sharing for the service.The fact the 90% of rural municipalities and 71% of urban municipalities are parties to agreements under this program is significant.

6. OPTIONS FOR GREATER EQUALIZATION

There is need for substantially greater fairness in the allocation of monies from the rural revenue sharing pool to individual municipalities.

The Commission examined several options for achieving greater equalization.[3]

---

[3] See Appendix III-2 for additional data.

A. Options Without Additional Monies in the Rural Revenue Sharing Pool

The Commission examined the following options under which greater equalization might be achieved using the same amount of monies in the rural revenue sharing pool, by changing certain components to the formula and by reallocating some monies from other revenue sharing grants to the equalization grant formula:

Option 1: Retain the Basic Grant, but Treat It as Recognized Revenue

Option 2: Eliminate the Basic Grant

Option 3: Eliminate Basic and Reduce Conditional Grants

Option 4: Reallocate the Equalization Grants

Summary

The Commission has concluded that the current level of funding for rural municipalities under revenue sharing is insufficient to bring about full equalization in a practical and desirable way. Under the existing level of funding options which are capable of enabling all municipalities to receive their full equalization entitlement can achieve this objective only by bringing about substantial reductions in grants to substantial numbers of municipalities.The Commission believes this is neither practical nor desirable. The Commission believes there is nothing inherently wrong with options which would provide less money to some municipalities and more money to others. However, it is the magnitude of these reductions under the various options which would be unacceptable.

B. Options With Additional Monies in the Revenue Sharing Pool

The Commission examined a number of options under which full equalization could be achieved through the addition of monies to the rural revenue sharing pool.Some of those options are:

Option 5: Keep all Components Unchanged, and Provide a Full Equalization Payout

Option 6: Retain the Conditional Grants, Eliminate the Basic Grant, and Provide a Full Equalization Payout

Option 7: Reduce Conditional Grants, Eliminate Basic Grants, and Provide Full Equalization Payout

Option 8: Eliminate Basic Grant, Conditional Grants Vary Between 20% and 80%, and Provide Full Equalization Payout

Summary

The analysis undertaken by the Commission reveals that there simply are not sufficient monies in the current revenue sharing pool to bring about full equalization with acceptable implications. There are a variety of options for bringing about greater equalization. The Commission believes, however, that one of the requirements for achieving greater equalization is an addition to the revenue sharing pool.

7. CONCLUSIONS/RECOMMENDATIONS

The Commission has reached the following conclusions and recommendations:

- **There are gross inequities in the funding of municipalities under the current allocations of rural revenue sharing monies.** Numerous municipalities with large local tax bases are able to provide better-than-average services with very low mill rates, while numerous other municipalities currently suffer from a combination of relatively high mill rates and lower-than-average standards of services.

- **Conditional road construction and maintenance grant programs need to be retained. This is necessary in order to help serve the broad provincial interest in having an integrated intermunicipal designated road system that is constructed and maintained to required standards.** Where there are interests to be served that go beyond the boundaries of individual municipalities, it is appropriate that certain grants be tied to conditions to help ensure that those interests are in fact served.

- **The percentages of assistance for constructing roads that are part of the designated road network are so high and such a high proportion of overall revenue sharing payments are provided for road construction that municipalities are given an extremely strong incentive to give the highest priority to constructing more and more roads.** Individual municipalities may have a need for reconstruction of certain roads, for more intensive maintenance of certain roads, or for expenditures not related to transportation, but the conditional grant system strongly steers municipalities away from such expenditures in favour of the construction of designated roads.

- **The equalization grant program is based on sound principles and the formula is well designed.**

- **There are insufficient monies in the rural revenue sharing pool to permit the achievement of full equalization under acceptable circumstances.**

- **Three initiatives should be taken to achieve greater equalization:**

  — **The basic grants should be eliminated.**

  The monies currently distributed under the basic grant could be more equitably distributed under the equalization formula.

  — **The grant percentages under the conditional road construction programs should vary between 20% and 80%, depending on the wealth of the municipality, to correspond with the range of percentages of assistance provided under the bridge grant program.**

  This broader range in percentages of assistance would achieve four main things:

  — It would achieve greater equalization in the conditional construction grants themselves.

  — It would reduce the average percentage of sharing under the conditional construction grants, thereby freeing up more monies for distribution under the equalization formula.

  — It would reduce the amount of encouragement in the overall grant structure for the construction of designated roads. Municipalities would forego less in grants if they decided to put more of their priorities in other areas.

  — It would increase the amount of unconditional funding of rural municipalities, thereby increasing their autonomy.

  — **An addition of approximately $13 million should be made to the rural revenue sharing pool.**

  The Commission believes that an addition of approximately this amount to the revenue sharing pool is required in order to achieve full equalization and ensure that individual municipalities do not experience unacceptable levels of reductions in grants.

  The Commission emphasizes a reduction in the average level of conditional grants and a reallocation to the equalization distribution cannot, in itself, provide sufficient equalization. A reduction in conditional grants increases the local share of the standard annual expenditure requirement for equalization grants.

  It may be necessary to provide a form of "grandfathering" in regard to the percentage of assistance on the designated road network. For example, those municipalities which have a lower-than-average percentage of their designated road network completed, might be provided with grants based on the old percentages until the municipality had had reached the average stage of completion of the designated network.

- **Administration costs in the equalization formula should be based on average administration costs of similar-sized municipalities, rather than on the actual administration expenditures in the municipality.**

  Under the current practices, the more a municipality spends on administration, the higher its equalization grant. The Commission believes that a grant formula should be as neutral as possible in its effects on the spending decisions of municipalities.

- **The equalization formula should be adjusted to give more adequate recognition to the costs, particularly high road maintenance costs, faced by certain municipalities.**

  The flexibility that can be exercised in the equalization formula should be used to give recognition to the particular situations where major additional costs are faced by municipalities.

- **The present hamlet grants, maintenance grants, bridge grants, and intermunicipal fire protection and recreation grants should be retained.**

  The maintenance grant should be only at that level that is necessary to ensure that there is sufficient incentive for municipalities to keep their designated roads maintained to standard. The bulk of the assistance for maintenance of roads should continue to be incorporated into the expenditures recognized in the equalization calculation.

  The bridge grants are well designed and should be retained. The intermunicipal fire protection and recreation grants provide at least modest encouragement for intermunicipal co-operation and should be retained.

- **The Commission recommends that there be a fundamental re-examination of the designated road system in light of rail line abandonment and greater centralization of grain delivery points.**

Because of the expense in constructing a total road network it is essential that the monies be allocated to where they are most needed. A re-examination of road needs in light of recent developments may yield a different set of priorities.

- **The equalization formula should be examined for the possible addition of recognized expenditures for items additional to those which relate to administration and transportation.**

Municipalities do have responsibilty for areas other than transportation and they should be recognized, provided that an acceptable means can be developed to quantify them reasonably objectively.

CHAPTER THREE

URBAN REVENUE SHARING

This chapter provides an analysis of the mechanisms that are used to allocate the urban revenue sharing pool among individual urban municipalities.

1. REVENUE SHARING PAYMENTS - MAINLY UNCONDITIONAL

Monies are distributed to urban municipalities from the urban revenue sharing pool on primarily an unconditional basis.

The allocation of the $65.2 million paid out in 1985-86 is shown in Chart III-4.

2. CONDITIONAL GRANTS - A DESCRIPTION

The intermunicipal fire protection and recreation programs are designed to promote joint activity and intermunicipal co-operation in the provision of fire protection and in the operation and maintenance of recreation facilities. They were described in the previous chapter.

3. UNCONDITIONAL GRANTS - A DESCRIPTION

A. Per Capita Grant

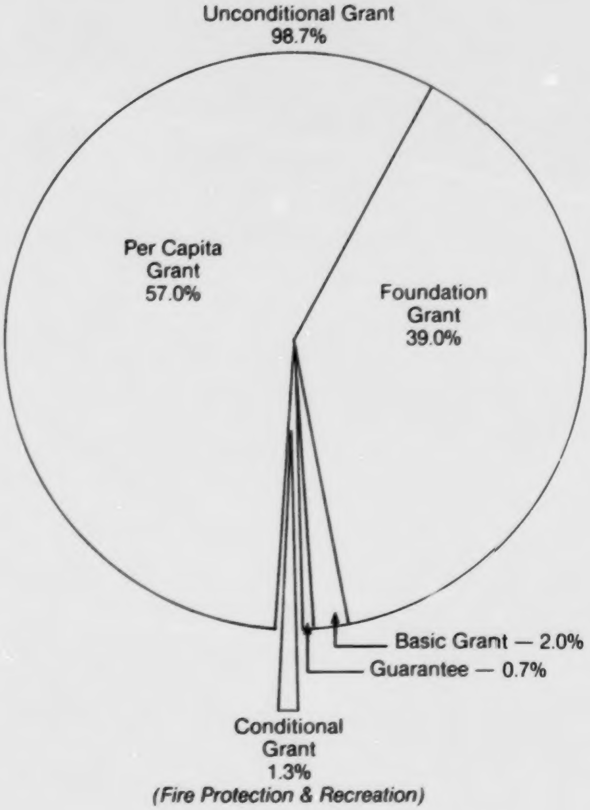
The per capita grant is simply a standard amount that is paid to each urban municipality for each permanent resident of the municipality. For 1985, the grant was $54.45 per capita, based on the 1981 federal census population. Approximately 58% of the unconditional revenue sharing allocation was paid through the per capita component in 1985.

B. Foundation Grant

1) Purpose of Foundation Grant

The purpose of the foundation grant is to provide a greater degree of equality among the more wealthy and less wealthy municipalities of comparable populations in terms of their ability to provide a reasonable level of municipal services at reasonable local tax rates. To achieve the purpose behind equalization, more assistance is provided to the less wealthy municipalities than to the wealthy municipalities. In this way, the former have a greater opportunity to provide services comparable to those in the wealthy communities, without having to levy unduly high local tax rates.

CHART III-4
PERCENTAGE DISTRIBUTION OF URBAN REVENUE SHARING
1985-86



2) How the Foundation Grant is Calculated

A formula is used to determine a reasonable level of expenditure (called "recognized expenditure") for each municipality. A formula also is used to determine a reasonable number of mills on the local tax base which the taxpayers of each municipality should be expected to contribute to meet the recognized expenditures. This local contribution is called "recognized local revenue". The grant to a municipality is the difference between recognized expenditures and recognized local revenue.

3) Used Only to Calculate Grants

The recognized expenditures and recognized local revenues are used only for the purpose of calculating grants, and there is no obligation for municipalities to spend or set local tax rates at the levels used in the grant calculations.

4) Recognized Expenditures

Recognized expenditures fall in two main categories:

- General Municipal Expenditures;
- Police Protection.

The general municipal expenditures category is intended to cover all types of operating expenditures of municipalities, except utilities and police protection services.Larger communities spend larger amounts per capita (reflecting the greater range of services that larger communities provide). A formula sets out a reasonable level of general municipal expenditure based on the population of the community and the average actual expenditure for municipalities of various population groupings.

A formula based on population and actual average expenditure on police services by municipalities in various population groupings determines the amount of police expenditures to be recognized under the foundation grant.

The amounts recognized for general municipal expenditures are added to the amounts recognized for police expenditures to arrive at a total recognized expenditure for each municipality.

5) Recognized Local Revenues

Recognized local revenues fall into two main categories:

- Monies which can be raised by applying a mill rate (called the computational mill rate) to the local assessment base.
- Grants-in-lieu of taxes, trailer licence fees, revenues from tax sharing on potash mines.

The Commission believes:

- Taxpayers in municipalities of similar populations and similar levels of services should be expected to pay similar mill rates in meeting the costs of those services.
- Taxpayers in larger communities with higher levels of services should be expected to pay higher mill rates in meeting the costs of those higher levels of services.

In accordance with these principles, a schedule of computational mill rates is developed. The smaller the community, the lower the computational mill rate, and the larger the community, the larger the computational mill rate.

The computational mill rate is multiplied by the equalized assessment base for the municipality to obtain the amount of local taxation which the municipality could be expected to raise in meeting the recognized expenditures. Actual grants-in-lieu of taxes, trailer licence fees, and revenues obtained under potash mine tax sharing arrangements are added to the calculated amount of local property tax revenue to obtain total recognized local revenue.

6) Pictorial Description of Foundation Formula

The foundation grant concept is essentially the same as the equalization concept under rural revenue sharing, as presented in Chart III-2 in the previous chapter.

7) Partial Equalization

It would have cost approximately $80 million in foundation grants if the full theoretical entitlement were paid to each municipality eligible for a foundation grant. Because only $25.4 million was allocated to the foundation grant from the urban revenue sharing pool, only a portion of the theoretical equalization entitlements could be paid. Accordingly, each municipality was given 32.14% of its theoretical entitlement.

The implications of the payment of only the partial foundation grant are much the same as they are for rural municipalities as described in the previous chapter and in Chart III-3.

C. Basic Grant

The basic grant in 1985 amounted to $2,075 for municipalities up to a population of 149, $2,760 for municipalities with populations between 150 and 299, and $3,000 for municipalities with populations of 300 or more.

The basic grant is intended to assist the very small communities, and was implemented for two reasons:

- The very small community tends to have certain overhead costs that do not vary in direct proportion to the size of the population.
- Population alone is not a sufficient reflection of need for municipalities with very small populations.

4. COMMENTS/EVALUATION

A. Need for Equalization

This section deals only with unconditional grants.

Mills Required to Finance Standard Expenditures

The Commission divided urban municipalities into several population categories and examined the mill rates that each municipality would be required to levy in order to finance the standard level of expenditure[1] recognized in the foundation formula, assuming that there were no provincial grants, but taking into account any grants-in-lieu of taxes, trailer licence fees, or potash mine tax sharing that they might receive. Municipalities which could finance the standard level of expenditure with a relatively low mill rate could be considered to be relatively wealthy. On the other hand, municipalities which would require relatively high mill rates to finance the standard level of expenditure could be considered to be the least wealthy municipalities.

The Commission found that there were wide variations in the fiscal capacity of municipalities. As indicated in Table III-2 and Chart III-5, the most wealthy municipalities in the 1 to 100 population category could finance the standard level of expenditure with mill rates averaging 68.5 mills, while the least wealthy municipalities would require average mill rates of 175.2 mills to meet the same standard, a difference in excess of 100 mills. Large differences also exist in regard to the communities in other population groupings.[2]

TABLE III-2
MILLS REQUIRED TO MEET STANDARD EXPENDITURES (IN THE ABSENCE OF PROVINCIAL GRANTS)

Population Category	Average for Most Wealthy Municipalities	Average for Least Wealthy Municipalities	Difference Between Least Wealthy and Most Wealthy Municipalities
1 - 100	68.5 mills	175.2 mills	106.7 mills
101 - 250	75.7	176.5	100.8
251 - 500	82.3	128.7	66.4
501 - 1,000	101.5	181.4	79.9
1,001 - 1,500	117.6	192.5	74.9
1,501 - 5,000	121.2	202.6	81.4

NOTES:

(1) All averages are simple, not weighted, averages.

(2) Because of the unusual population characteristics of resort communities, they were excluded from this table and other similar tables in this chapter.

(3) The 10 most wealthy and 10 least wealthy municipalities were used in calculating the averages in all population categories except for the latter two. In the latter two, the five most and least wealthy were used because of the fewer number of municipalities in the category.

(4) The population category of above 5,000 was excluded from this table because of the great differences in the computational mill rates and the few municipalities in the category.

(5) The municipalities were ranked by wealth according to the mill rates they would require to finance their standard expenditures, as a percentage of their computational mill rate.

(6) As noted earlier, the larger the population of the municipality, the higher the computational mill rate that is used in the calculation of the foundation grant. See Appendix III-19 **Final Report** — main volume for the average computational mill rates of the most wealthy at least wealthy municipalities in the various population groupings.

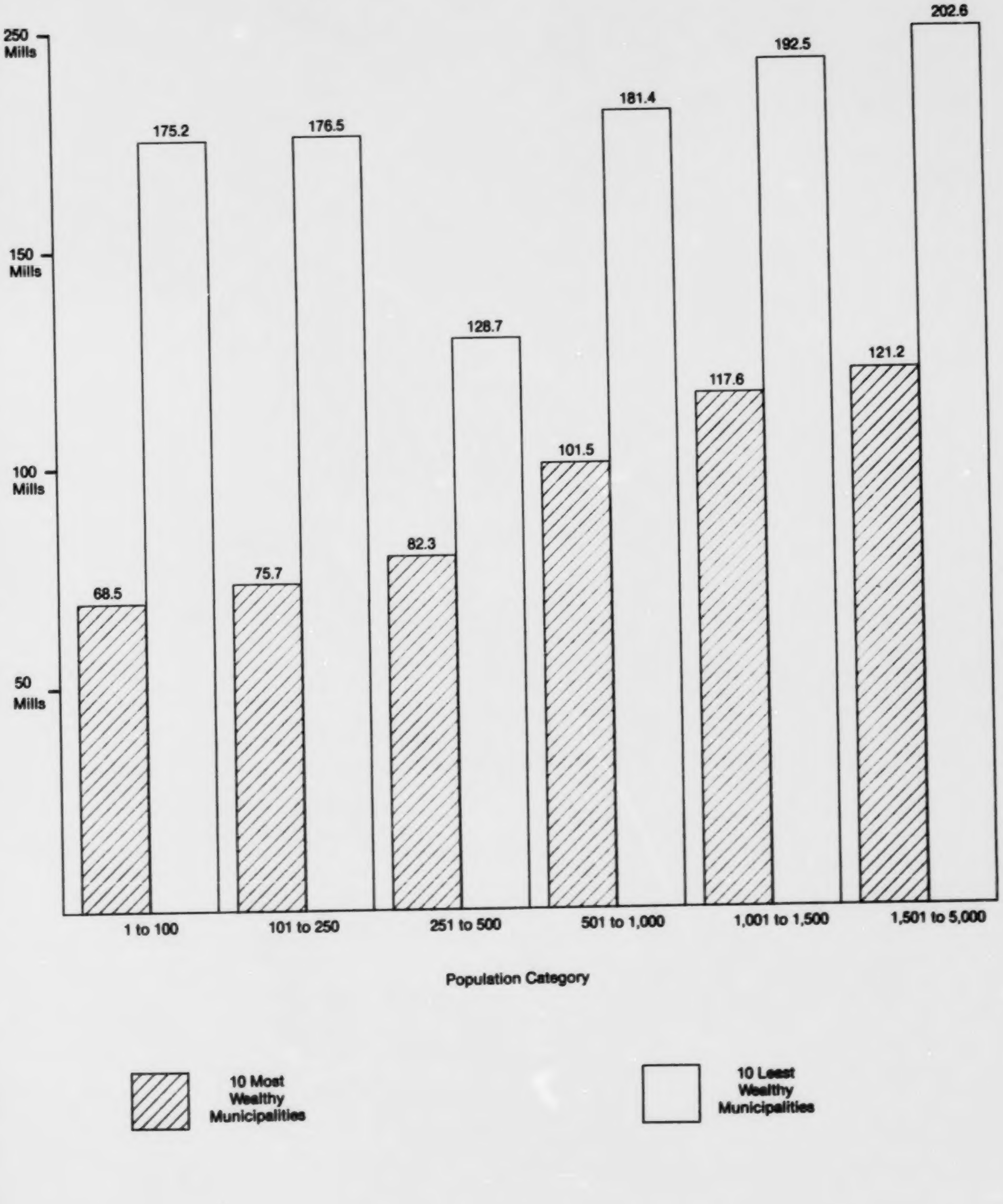
---

[1] Standard recognized expenditures are based, in effect, on actual average expenditures of municipalities in the various population groupings.

[2] See Appendix III-3 for examples of specific municipalities with contrasting fiscal capacities.

CHART III-5

MILLS REQUIRED TO MEET STANDARD EXPENDITURE (IN ABSENCE OF PROVINCIAL GRANTS)



Another way of analyzing the degree of disparity in the fiscal capacity of municipalities is to compare the mill rate required to meet the standard expenditure, with the computational mill rate used in the foundation grant calculation. This is a more useful method of comparing fiscal capacities of municipalities of varying population sizes because:

- service levels, expenditure levels and mill rates are generally higher in larger communities,
- the computational mill rates are higher for the larger communities.

Table III-3 provides a comparison between the wealthy and least wealthy municipalities in terms of their required mill rate as a percentage of the computational mill rate.

TABLE III-3
MILLS REQUIRED TO MEET STANDARD EXPENDITURES AS A PERCENTAGE OF COMPUTATIONAL MILL RATE (IN THE ABSENCE OF PROVINCIAL GRANTS)

Population Category	**Average for Most Wealthy Municipalities**	**Average for Least Wealthy Municipalities**	**Difference Between Least Wealthy and Most Wealthy Municipalities**
1 - 100	125.6%	322.6%	197.0 % *points*
101 - 250	134.1	313.5	179.4
251 - 500	123.1	203.1	80.0
501 - 1,000	147.7	263.9	116.2
1,001 - 1,500	153.5	271.0	117.5
1,501 - 5,000	115.5	205.6	90.1
Over 5,000	113.7	160.8	47.1

NOTES:

(1) The notes under Table III-2 also apply to this table, except that in this table, the over 5,000 population grouping is used. In this grouping, the individual most wealthy and individual least wealthy cities are used instead of averages for a larger number. The large differences among cities in the computational mill rate does not distort the analysis in this table because required mill rates are expressed as a percentage of the computational mill rates.

(2) Data on the City of Lloydminster are excluded in this and other similar tables because their receipt of grants from the Province of Alberta provides a lack of comparability with other cities.

(3) See Appendix III-19 **Final Report** main volume for the average computational mill rates for the most wealthy and least wealthy municipalties in each population category.

The mill rates required all exceed the computational mill rate, but the excess is much greater for the least wealthy municipalities than for the wealthy municipalities.

From the foregoing data, the following conclusions can be drawn:

- There are wide variations in the local fiscal capacities of urban municipalities.
- In the absence of provincial grants, many municipalities with small local tax bases would be forced either to have excessively high mill rates, or would have to opt for lower expenditures (and hence lower levels of service) in relation to other communities of a similar size, or both high mill rates and lower services.
- To promote greater equality of opportunity for municipalities of similar size to offer similar levels of service at comparable mill rates, revenue sharing payments must have the effect of equalizing the overall fiscal capacity of municipalities.

B. The Extent of Equalization

The Commission examined the extent to which the basic, the per capita and the foundation grants promote equalization.

In Table III-4, the average mill rate required to meet the standard recognized expenditure, is expressed as a percentage of the computational mill rate, both for the most wealthy and the least wealthy municipalities.For example, in the 1 - 100 population category, the most wealthy municipalities would require mill rates averaging 126% of the computational mill rate to meet the standard expenditure if there were no grants paid, while the least wealthy municipalities would require mill rates of 323% of the computational mill rate.

TABLE III-4

MILL RATE REQUIRED TO MEET STANDARD EXPENDITURES AS A PERCENTAGE OF THE COMPUTATIONAL MILL RATE MOST WEALTHY AND LEAST WEALTHY MUNICIPALITIES

Population Category	Before Grants		After Basic Grant Only		After Basic and Per Capita Grants		After Basic Per Capita and Foundation Grants (Partial Equalization)*	
	Most Wealthy	Least Wealthy	Most Wealthy	Least Wealthy	Most Wealthy	Least Wealthy	Most Wealthy	Least Wealthy
1 - 100	126%	323%	105%	264%	75%	192%	67%	121%
101 - 250	134	314	124	287	87	200	76	131
251 - 500	123	210	118	199	81	138	74	102
501 - 1,000	148	264	145	259	111	200	95	147
1,001 - 1,500	154	271	152	269	122	217	105	162
1,501 - 5,000	116	206	115	205	96	169	90	135
Over 5,000	114	161	114	161	99	143	95	123

---

*These are the figures that would have occurred had the 1985 equalization formula actually been used to allocate the grants. Since 1983-84, the provincial government has applied an across-the-board approach to distributing foundation grants. In 1983-84, all municipalities received a 7% increase, a 5% increase in 1984-85, no increase in 1985-86, and a 3% increase in 1986-87. Only 32.14% of the foundation entitlement of each municipality was paid in 1985

NOTES: The notes in Table III-2 apply to this table, except in regard to the over 5,000 population category, for which the footnotes in Table III-3 apply.

See Appendix III-19 **Final Report** — main volume for the average computational mill rates for hte most wealthy and least wealthy municipalities by population category.

TABLE III-5

IMPACT OF VARIOUS GRANTS ON DIFFERENCE IN MILLS REQUIRED TO FINANCE STANDARD EXPENDITURES MOST WEALTHY AND LEAST WEALTHY MUNICIPALITIES

Population Category	Difference in Percentage Points Between Most Wealthy and Least Wealthy Municipalities			
	Before Grants	After Basic Grant Only	After Basic and Per Capita Grants	After Basic, Per Capita and Foundation Grants (Partial Equalization)
1 - 100	197 % points	159 % points	117 % points	54 % points
101 - 250	180	163	113	55
251 - 500	87	81	57	28
501 - 1,000	116	114	89	52
1,001 - 1,500	117	117	95	57
1,501 - 5,000	91	90	73	45
Over 5,000	47	47	44	28

Table III-5 is derived from Table III-4 and displays the difference between the most wealthy and least wealthy communities in terms of percentage points. For example, from Table III-4, it is seen that in the 501 to 1,000 population group, in the absence of provincial grants, the most wealthy municipalities would require mill rates averaging 148% of the computational mill rate, while the least wealthy municipalities would require mill rates averaging 264% of the computational mill rate. This is a difference of 116 percentage points.

Full or complete equalization occurs when there is no difference between the mill rates which the most wealthy and least wealthy municialities would require to meet their standard expenditures, after taking grants into account. The degree of equalization brought about by a grant can be measured by the extent to which it brings about equality in the mill rates required by municipalities with different wealth.

1) Basic Grant

The basic grant does have some equalizing effect for the smaller municipalities although the impact on larger centres is effectively reduced to almost zero.

2) Per Capita Grant

The per capita grant also has the effect of bringing about some equalization because a given grant is equivalent to a greater number of mills on the local tax base in a municipality with a low assessment per capita than a municipality with a high assessment per capita.

For the 7 different groupings, the disparity in mill rate requirements is reduced by an average of 26 percentage points.

3) Foundation Grants

The foundation grant reduces the disparity in mill rate requirements. For the 7 different population groupings, the disparity between the most wealthy and least wealthy municipalities is reduced by an average of 38 points.

4) Per Capita Compared with Foundation Grants

Table III-6 provides a different basis of comparison of the respective abilities of per capita and foundation grants to achieve equality among municipalities

TABLE III-6

COMPARISON OF IMPACT OF PER CAPITA AND FOUNDATION GRANTS* MILL RATES REQUIRED TO MEET STANDARD EXPENDITURES AS A PERCENTAGE OF COMPUTATIONAL MILL RATE

	After Basic and Per Capita Grants Only**			**After Basic and Foundation Grants Only*****		
Population Category	**Most Wealthy Municipalities**	**Least Wealthy Municipalities**	**Difference in Percentage % Points**	**Most Wealthy Municipalities**	**Least Wealthy Municipalities**	**Difference in Percentage % Points**
1 - 100	70%	118%	48% points	85%	90%	5% points
101 - 250	81	117	36	97	120	23
251 - 500	81	108	27	100	113	13
501 - 1,000	145	258	113	107	131	24
1,001 - 1,500	152	269	117	110	135	25
1,501 - 5,000	115	205	90	103	122	19
Over 5,000	114	161	47	103	113	10

---

*The notes under Table III-2 apply to this table with the exception of the over 5,000 population category to which the notes under Table III-3 apply.

**Under this approach, the basic grant of $1.3 million is retained, and the $25.9 in foundation grants (the amount that would have been distributed had the 1985 formula actually been used) is reallocated to the per capita distribution. The per capita distribution would amount to $63.0 million, and the value per capita would be $92.37. The total basic and per capita payout would be $64.3 million.

***Under this approach, the basic grant of $1.3 million is retained, and $37.1 million in the per capita allocation is reassigned to the foundation formula. The total basic and foundation payout would be $64.3 million. Municipalities would receive 78.29% of their foundation entitlement.

in terms of their capacity to provide comparable services with comparable mill rates. The first set of three columns displays the differences in mill rate requirements between the most wealthy and least wealthy municipalities, assuming that the 1985 basic grant was paid and that all of the monies which had been allocated to the foundation grant were reallocated to the per capita grant. The second set of three columns displays the disparities which would exist if the basic grant were paid and the monies which had been allocated to the per capita grant were reallocated to the foundation formula.

For example, for the 1 to 100 population category, there would be a disparity of 48 percentage points in mill rate requirements between the most wealthy and the least wealthy municipalities if the foundation grants were reallocated to the per capita grant. When the per capita grants are reallocated to the foundation formula, the disparity drops to 5 percentage points.

In short, this analysis also shows that the foundation grant system is considerably more effective in terms of providing municipalities with the ability to provide comparable services with comparable mill rates.

C. Implications of Incomplete Equalization

Tables III-4 and III-5 show that even taking into account the impact of the basic, the per capita, and partial foundation grants, there are major differences in the mill rates that would be required to meet the standard expenditures. The average mill rate requirements of the least wealthy municipalities are as much as 80% in excess of the average mill rate requirements of the most wealthy municipalities to meet standard expenditure levels.

5. OPTIONS FOR IMPROVED EQUALIZATION

Commission examined some options under which equalization could be improved in the revenue sharing payments.[3] The 1985 distribution of grants which would have occurred without the guarantee provision is used as a base for comparison.

Although some of the options entail changes to the computational mill rates and the recognized revenues for the foundation formula, it was assumed that the current basic structure of the foundation formula would remain unchanged in the options examined.

A) Options Without Additional Monies in the Revenue Sharing Pool[4]

The Commission examined a number of options to determine whether a reallocation of the current level of funding could be used to improve the ability of communities of similar size to have similar levels of services at similar local mill rates.

Option 1: Basic and Per Capita Considered as Recognized Revenue

Option 2: Basic and Per Capita Considered as Recognized Revenue and Increase Computational Mill Rate

Option 3: Reallocate Foundation Grant Funds to Per Capita

Option 4: Reallocate Per Capita Funds to Foundation Grant

Option 5: Reallocate Per Capita Funds to Foundation Grant and Increase Computational Mill Rate

Summary

While some of the options do bring about greater equality of mill rate requirements between the least wealthy and most wealthy municipalities within population groups, the Commission believes that none of them are practical or desirable because of the substantial reductions in grants for many municipalities which would be necessary to achieve the equality. In short, the Commission has concluded that there are insufficient monies in the urban revenue sharing pool in order to bring about full equalization in a practical way.

B) Options Requiring Additional Monies in the Revenue Sharing Pool[5]

The Commission examined a number of options for improving equalization under which the constraint of the previous set of options would be removed and there would be increases in the revenue sharing pool.

Option 6: Eliminate Per Capita and Provide Full Equalization

Option 7: Eliminate Basic and Per Capita and Provide Full Equalization

---

[3] The implications of the various options are set out in the **Final Report** - main volume.

[4] See Appendix III-4

[5] See Appendix III-5

Option 8: Add $17.5 Million to Foundation Grant

Option 9: Add $17.0 Million to Foundation Grant, but Treat Basic and Per Capita as Recognized Revenue

Summary

In summary, the Commission has concluded that there are means of providing full equalization and eliminating disparities in mill rate requirements under a number of options that would entail the addition of approximately $17 million to the urban revenue sharing pool.Some municipalities would receive decreases in grants but these would be of a reasonable magnitude.

However, the Commission has also concluded that some changes would be required in the foundation formula to bring about a fair and equitable distribution of foundation grant monies in the various population groupings.This issue will be discussed later in this chapter.

6. THE FOUNDATION FORMULA

The Commission believes that the foundation formula is fundamentally sound:

- The use of recognized expenditures for police and general municipal expenditures on the basis of higher per capita amounts for larger municipalities is conceptually sound. Larger municipalities do have a greater range of services, and they do spend more than smaller municipalities on both an absolute and a per capita basis. The use of actual expenditure data in arriving at the formulas which are used in determining recognized expenditures is a sound practice.
- The use of a higher computational mill rate for larger communities is also conceptually sound.It is only reasonable for taxpayers in larger centres with greater levels of services to be expected to have a correspondingly higher mill rate to pay for those services than those living in smaller centres with lower levels of services.
- If fully applied, the formula will achieve the objective of equalizing the fiscal capacities of municipalities to provide levels of services appropriate and feasible for their size.

Some aspects of the formula warrant substantial improvement:

A) Recognized Revenue and Expenditure

The per capita grants are a major source of revenue for municipalities and this fact needs to be reflected in the calculation of the foundation grant. Per capita grants should be considered as recognized revenue just as conditional grants are taken into account in the calculation of equalization grants in the rural revenue sharing program.

The Commission also believes that grants-in-lieu of taxes should be converted to an equivalent or "derived" assessment in calculating local revenue. This is preferable to the current practice of simply recognizing the amount of grants-in-lieu of taxes collected by the municipality.

B) Allocation Among Population Groupings

Several of the options in section 5 would achieve what might be called "horizontal equity". That is, they would enable municipalities of similar populations to spend at comparable levels and to finance their expenditures at comparable mill rates.

In the process of examining these options, it became apparent that neither the current distribution of grants nor the options identified achieved what might be called "vertical equity". That is, it appears that certain components of the foundation formula are currently established in a way which provides for an unfair distribution of monies among the various population groupings.[6]

Neither the fundamental principles behind the foundation formula nor its basic structure would have to be changed in order to bring about the required equity among the population groupings. Instead, particular care must be exercised in developing the schedule of recognized expenditures and revenues across the different population groupings. In particular, the Commission believes that the schedule of computational mill rates needs to be examined.

C) Summary

The foundation formula is fundamentally sound. A number of options can be developed, using the current structure of the formula, to enable municipalities of similar populations to have similar levels of services at similar local tax rates, even though the size of their local tax bases may be quite different.

A restructuring of the schedule of recognized revenues and expenditures is required, however, in order to bring about equality of treatment for municipalities in the different population groupings.

---

[6] See Appendix III-6

7. GRANDFATHERING PROVISIONS

Originally, "grandfathering" provisions were instituted as a means of ensuring that as a result of the implementation of revenue sharing, no municipality would experience a reduction in grants.

Recently, however, the amount of grandfathering has been more extensive. When additions were made to the revenue sharing pools in 1984-85 and 1986-87, for example, all municipalities received the same percentage increase in grants, regardless of any changes in assessments, population, or other factors.

The Commission believes that some forms of grandfathering, such as guaranteeing the same percentage increases in grants for all municipalities, operate in a manner which is contrary to the principles underlying the revenue sharing program.

Across-the-board increases in revenue sharing payments may be popular in the short run. In the long run, however, they tend to destroy the operation of the equalization principle and produce proportionate inequities.

Designing the recognized expenditures and revenues in the foundation formula in a way which minimizes decreases in individual grants is another form of grandfathering. Principles should govern the design of the components of the formula, not short-term expediency.

Grandfathering should be used only to prevent excessive and burdensome decreases in grants arising from changes in grant formulas.

8. PER CAPITA GRANTS

It is apparent that an appropriately designed foundation formula is the only mechanism which can be used to bring about equality in the ability of municipalities of similar size to have similar levels of services with similar local tax rates. It is also apparent, however, that not all of the grants must be distributed through the foundation mechanism in order to achieve the objectives behind equalization, provided that sufficient monies are allocated to the foundation formula and that the per capita grants are treated as recognized expenditure in the formula.

While the Commission does not necessarily agree with all of the arguments that are made in support of per capita grants, it does believe that there is a place for per capita grants. From a technical standpoint, the equalization objective could be better achieved and achieved less expensively (in terms of the size of the revenue sharing pool required), if the per capita grant were eliminated and reallocated to the foundation formula. However, the disruption in grant allocations that would arise from their discontinuation would be substantial and it is not recommended.

Those who support greater reliance on per capita grants suggest that they achieve the objective of providing a broad distribution of grants among municipalities, that they are simple to understand and easy to administer, that weaknesses in the assessment system do not distort the distribution of grants, and that larger centres are unable to exert political pressure to have formulas designed to favour them over other municipalities.

In conclusion, the Commission believes that the current per capita grants should be retained.

9. BASIC GRANTS

The Commission believes that the distribution formula needs to acknowledge the fact that some operating costs are not proportional to population size.

An alternative to the basic grant is to make the appropriate adjustments to the recognized expenditures in the foundation grant formula to deal with such overhead costs. **The Commission recommends that the basic grants be discontinued in favour of more appropriate recognition of the operating costs of municipalities which do not vary in proportion to population, in calculating recognized expenditures.**

10. SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

The Commission reached several conclusions and makes a number of recommendations in connection with urban revenue sharing:

- **There are major variations in the fiscal capacities of urban municipalities. The least wealthy municipalities are faced either with having a lower level of services than their most wealthy counterparts of a similar population or with having mill rates which are higher in order to finance the services.**
- **Although the current revenue sharing grants do bring about some reduction in the disparities in mill rates which the least wealthy municipalities would require to finance standard levels of expenditures relative to the mill rates required by their most wealthy counterparts of a similar population, a substantial disparity still exists.**
- **The Commission has concluded that the lack of sufficient equalization is the largest single problem in regard to urban revenue sharing.**
- **The current level of monies in the urban revenue sharing pool is insufficient to permit full equalization to be achieved.**

Although a reallocation of grants within the current pool to put more emphasis on the foundation grants would improve equalization, full equalization could be achieved only by requiring many municipalities to receive substantial reductions in their revenue sharing payments. This is neither practical nor desirable.

- **The Commission recommends that approximately $17 million be added to the foundation grant component of the urban revenue sharing pool in order to achieve full equalization. The Commission recommends that the per capita grants be retained and kept at the current level.**

  If this is done in conjunction with other changes recommended by the Commission, municipalities will be able to receive their full equalization entitlements.Municipalities of similar size will be able to finance similar levels of services at similar local tax rates, regardless of their relative wealth.

- **The Commission recommends that the per capita grants be considered as recognized revenue in the foundation calculation.**

  This is necessary in order to adequately reflect the resources available to each municipality in calculating its foundation grant entitlement. This would parallel the practice in the rural revenue sharing equalization formula in regard to the conditional grants.

- **The Commission recommends that the basic grant be discontinued in favour of more appropriate recognition of the operating costs of municipalities which do not vary in proportion to population, in calculating recognized expenditures.**

- **In conjunction with the payments of additional monies through the foundation formula, the schedules of recognized revenues and expenditure need to be revised to correct imbalances in the amount of foundation monies provided to certain groupings of municipalities.**

  The basic principles underlying the foundation formula are conceptually sound and should not be changed, but the recognized revenues and expenditures used in calculating individual grants require adjustment. At present, some population groupings receive relatively low average amounts of foundation grants, while other population groupings receive relatively large average amounts.

- **The Commission recommends that "grandfathering" should be done only to prevent excessive reductions in grants, due to changes in policy or formulas. The Commission does not support across-the-board percentage increases in revenue sharing payments and universal "grandfathering" because, in the long run, it severely jeopardizes the equalization principle.**

- **Grants-in-lieu of taxes should be converted to a derived assessment for use in the calculation of foundation grants.** Local revenues which vary in proportion to the local mill rate should be converted to assessment so as to ensure that municipalities are neither rewarded nor penalized for decisions they make regarding their local tax rate.

- **The Commission recommends that standard amounts of the electrical and gas sales tax bases for each municipality be used in the calculation of recognized local revenue in the foundation formula.**

  This recommendation complements the recommended changes to the current system of S.P.C. payments as noted in Part II, Chapter Two. This would take the place of the current practice of recognizing actual gas and electric grants and ignoring the electrical surcharge revenue.Recognizing standard amounts of electrical and gas sales tax revenues would be necessary to take into account the fact that these are large sources of revenue, and are important components in the measurement of the fiscal capacities of municipalities.

CHAPTER FOUR

SCHOOL FOUNDATION FORMULA

In this chapter, the Commission examines the foundation grants formula which is used to allocate provincial grants among individual school divisions.

1. FOUNDATION FORMULA - OBJECTIVES

The bulk of the provincial operating grants to school divisions is distributed by means of the "foundation grants formula". Equalization of educational opportunities and local tax rates is the primary principle underlying the foundation grants formula.

The objectives of the foundation grants formula are:

- To compensate for variations in the local tax bases of school divisions in such a way that each school division is able to provide a desirable and realistic range of educational programs and services without having to impose an unduly high local tax rate.
- To maximize the autonomy of school divisions and to promote the efficient use of public monies by:
    - — Paying the bulk of the grants unconditionally.
    - — Encouraging school divisions to achieve economies. Savings realized by school divisions are retained and do not result in lower grants.
    - — Avoiding open-ended grants. A decision of a school division to spend more does not result in additional grants.
    - — Avoiding penalizing or rewarding school divisions for the choices they make on the level of programs and services offered in the school division.
- To protect school divisions affected by circumstances beyond their control such as sparsity of the school population, the necessity of operating small schools, large changes in enrolments, etc.

2. HOW THE FOUNDATION FORMULA OPERATES

In computing the grant for each school division, the expenditure level which is deemed by the Department of Education to be required for each school division to provide a realistic and desirable set of programs and services is first determined. This is termed "recognized expenditure". The recognized expenditure is used only for the purpose of calculating grants and school divisions may choose to spend either a greater or a lesser amount.

Second, the share of recognized expenditure which can be financed from local sources is determined. This is called "recognized local revenue" and is essentially determined by the level of revenue which would be raised by a standard mill rate applied to the assessment base of the school division.This standard local mill rate is used only for the purpose of calculating grants and, for this reason, it is called the "computational mill rate". School divisions may choose to levy either a higher or a lower mill rate than that which is used in the grant calculation.

The grant is equal to the full difference between the recognized expenditure and the amount of recognized local revenue.

The school foundation concept is essentially the same as the equalization concept under rural revenue sharing, as depicted in Chart III-2 in Chapter Two of this Part.

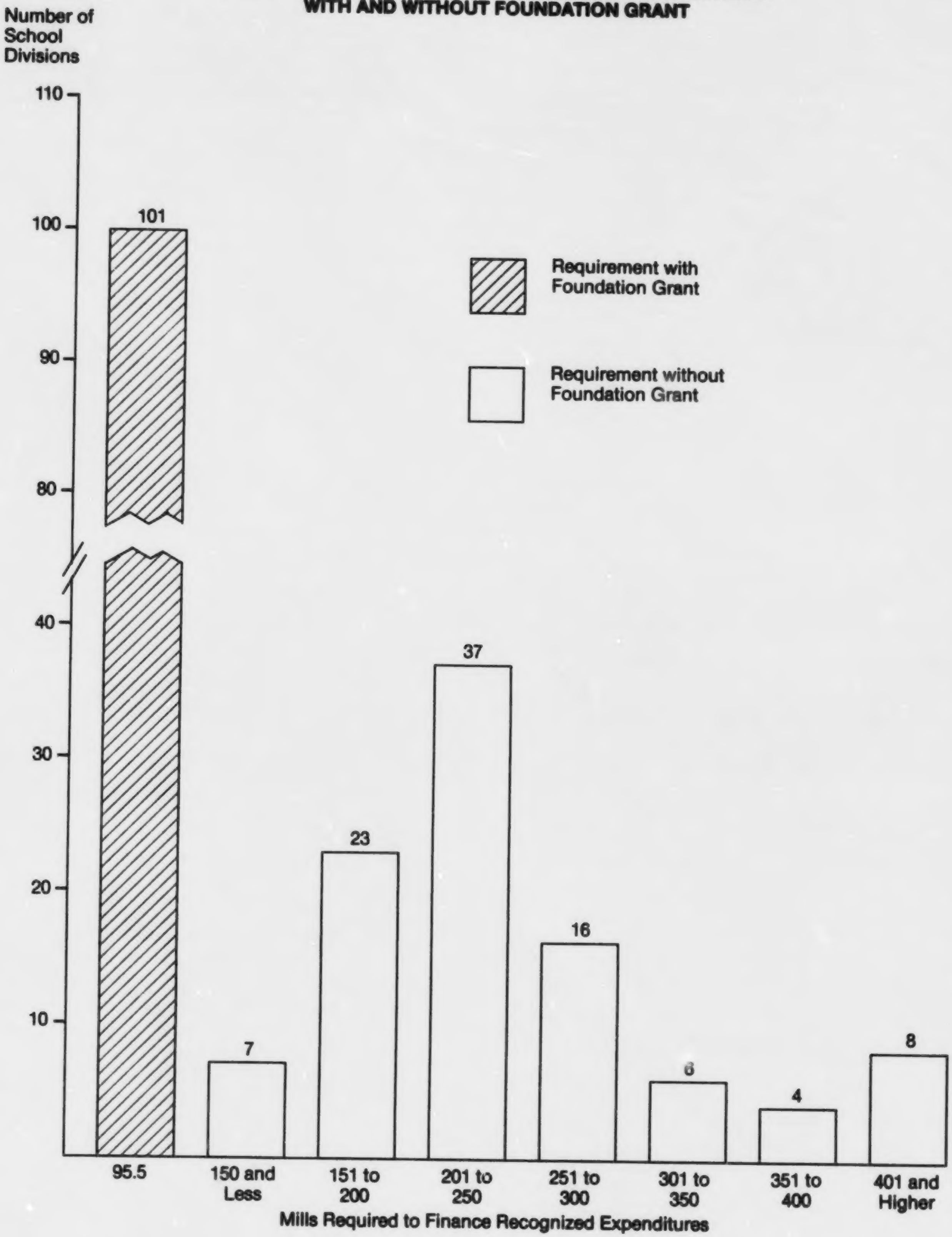
One way of illustrating the equalization impact of the foundation formula is to compare the mill rates which school divisions would require in order to meet a standard level of expenditure, first in the absence of provincial grants, then taking into account the revenue from 1985 foundation grants.Chart III-6 shows that, in the absence of foundation grants, a wide variation in mill rates would be required to meet the defined standard of expenditure.[1]

With the foundation grant, all school divisions are able to meet a standard level of expenditure with the same mill rate (the computational mill rate of 95.5 mills). In the absence of the foundation grant, varying mill rates would result, some of which would be exceedingly high.

---

[1] In order to provide comparability among school divisions, the standard level of expenditures used are expenditures recognized in the 1985 foundation formula, rather than the actual expenditures made by school divisions. Data are for the 101 school divisions excluding Lloydminster, Estlin, Gray, Wilcox, and 4 comprehensive high schools. The 3 school divisions in Humboldt have been combined for analytical purposes.

CHART III-6
MILLS REQUIRED TO FINANCE RECOGNIZED EXPENDITURES WITH AND WITHOUT FOUNDATION GRANT



3. EVALUATION OF FOUNDATION GRANT FORMULA

A. General

Because the bulk of the monies paid out under the foundation formula are paid unconditionally, the foundation formula achieves the objectives of maximizing autonomy and promoting efficiency.

The formula also performs well in providing monies to school divisions to compensate for circumstances beyond their control and for special circumstances, such as long bussing distances, sparsity of student population, the operation of small schools or experiencing a drop in enrolment.

B. Level of Recognized Expenditure

Over the years, recognized expenditures have fallen behind actual average expenditures of school divisions. On average, school divisions spend 11.5% in excess of the per pupil amounts recognized in the foundation formula in order to provide the level and quality of educational programs and services they believe are required. The implications for spending that additional amount are quite different for school divisions with a small tax base compared with a school division with a large tax base. Chart III-7, which outlines some facts pertaining to two actual rural school divisions, illustrates the point.

Division "B" has 51% more students than Division "A", but has only 42% of the assessment of Division "A".

The assessment per student of Division "A" is $26,762, while the assessment per student of Division "B" is $7,479, less than a third of that of Division "A".

If each division spends at the level recognized in the foundation formula, each of the divisions will essentially be able to balance its budget at an identical mill rate equal to the computational mill rate used in the calculation of the foundation grant.

Even though Division "B" is considerably less wealthy than Division "A", the foundation formula compensates for this difference. In other words, the financial capacity to meet the recognized level of expenditure is equalized in the foundation formula.

However, if each of the school divisions decides that it wishes to have per pupil expenditures equal to the average of what other school divisions throughout the province are spending, it will have to finance on its own the additional amount over and above the expenditures recognized in the foundation formula. The additional 11.5% of expenditure above the recognized level represents 11.2 mills for Division "A", but 40.5 mills for Division "B". Division "B" would require a mill rate 29.3 mills higher than Division "A" to spend at the provincial average. **The Commission has concluded that the shortfall between recognized and actual expenditure represents a serious impairment of the equalization principles underlying the funding of education in Saskatchewan.**

In regard to the current average levels of expenditure by school divisions in Saskatchewan, the Commission notes that Saskatchewan school divisions spend less on a per pupil basis than any province west of the Atlantic provinces. This suggests that the average level of expenditure by school divisions in Saskatchewan is reasonable.

The Commission believes that the level of recognized expenditures in the foundation formula is too low and ought to be equal to or at least much closer to the actual average expenditure level. Under present circumstances, the equalization principle is being substantially compromised.

The Commission examined three options for dealing with the shortfall in recognizing expenditures:[2]

Option 1: Increase Recognized Expenditures by 11.5% and Make No Other Changes.

Option 2: Increase Recognized Expenditures by 11.5% and Increase the Computational Mill Rate by 19 Mills.

Option 3: Increase Recognized Expenditures by 11.5% and Increase the Computational Mill Rate by 11 Mills.

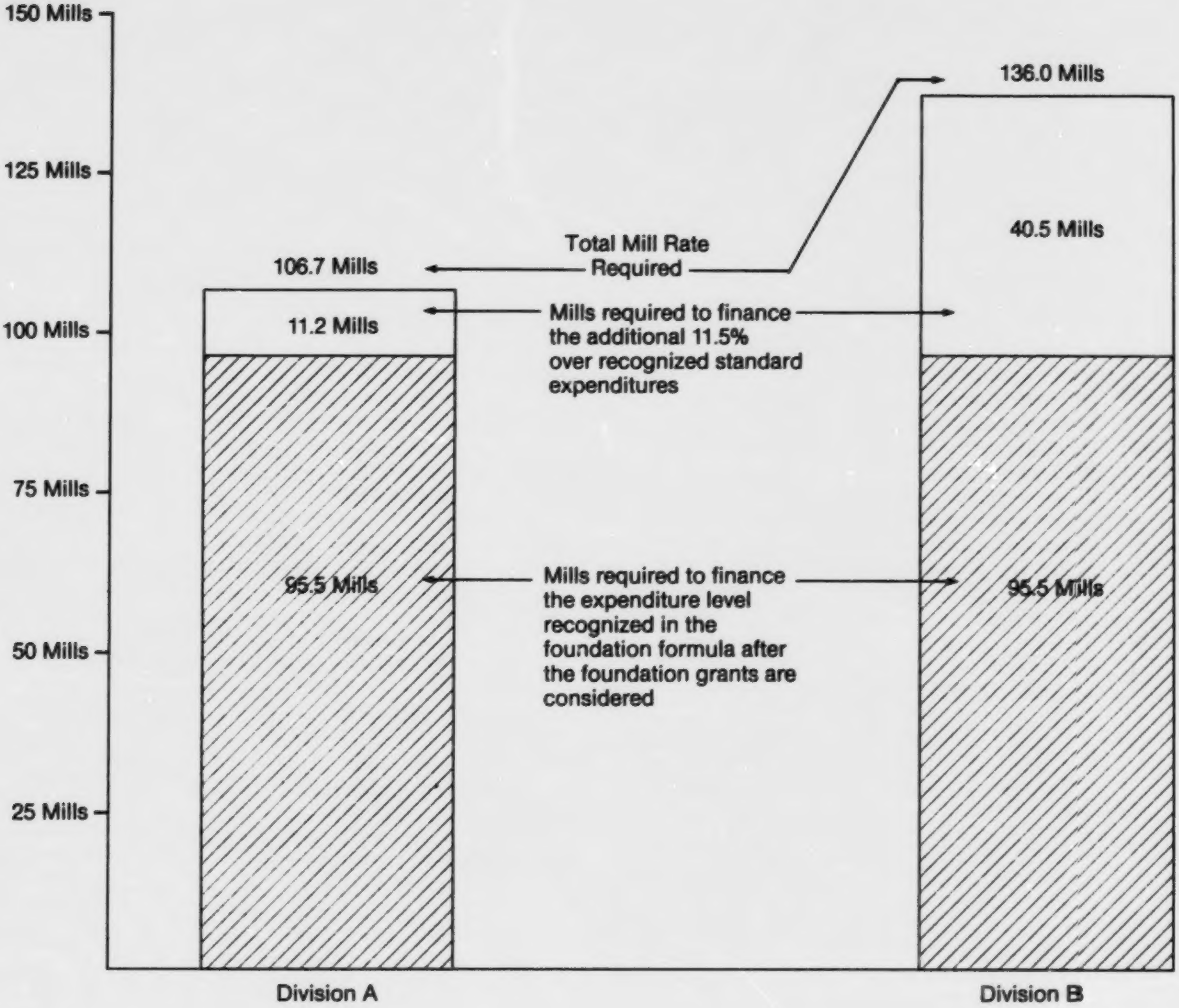
C. Sparsity Factor

The foundation formula includes a sparsity factor which is designed to compensate

---

[2] See Appendices III-7 and III-8 for an outline of the impact of these options on the 10 most wealthy and 10 least wealthy rural school divisions. School divisions formerly organized under **The Larger School Units Act** were chosen because they are a reasonably homogenous group.

CHART III-7
EXAMPLE OF LEVEL OF EXPENDITURES RECOGNIZED IN THE FOUNDATION FORMULA



school divisions for the additional costs associated with sparse student populations. Additional costs associated with sparsity are mainly related to transportation and the operation of small schools.

The Commission favours the phasing out of the sparsity factor for two main reasons:

- Other factors in the formula are intended to cover the same areas as the sparsity factor and the sparsity factor is superfluous.
- The sparsity factor is a very crude device.

D. Recognition for Students with a Disability

Grant recognition for students with a disability is given in two main forms:

1) 3% of the students enrolled in Divisions I to III are deemed to require special education services that are classified as being "low cost".
2) Other students with a "high cost" disability are specifically identified and each school division receives recognition for the identified students for whom appropriate educational services are provided.

Additional expenditures are recognized for both students with a "low cost" and "high cost" disability.

A number of concerns have been expressed about the way in which grant support is provided for the student with a learning disability which are currently provided with high cost funding:

1) The tests and measurements used to identify students with a learning disability are too imprecise and subjective to be used as a basis for determining grant support.
2) A disproportionate amount of time and resources are consumed in determining eligibility for grant support.
3) It is inappropriate to have a situation where it is to the financial advantage of school divisions to have greater numbers of students designated as having learning disabilities, when there is so much subjectivity involved in the identification process.

From the standpoint of making the best use of available resources and removing inappropriate financial incentives, **the Commission has concluded that for the purpose of calculating grants, a standard proportion of the enrolment should be classified as having a learning disability, thereby assigning a recognized cost for this category of student in the same way as the category of students who are deemed to have a low cost disability.**

4. CONCLUSIONS AND RECOMMENDATIONS

The Commission has arrived at the following conclusions and recommendations:

- **The foundation grant formula is based on sound principles and is well structured.**
- **While the formula structure is fundamentally sound, substantial inequities arise and the equalization principle is compromised because recognized expenditures have fallen considerably below the level of actual expenditures of school divisions.**

  Overall expenditures by school divisions in Saskatchewan are not out-of-line, either in relation to expenditures in other provinces or in relation to the level of educational services desired by the public, but they substantially exceed the expenditures recognized in the foundation formula.

  It requires more in mills for the least wealthy school divisions to finance the differences between the recognized expenditures and the actual average level of expenditures than it does for the most wealthy school divisions. The least wealthy school divisions are faced with either having considerably higher mill rates than their most wealthy counterparts, or they must spend less, or both. This represents a substantial impairment of the equalization principle.
- **The Commission recommends that recognized expenditures be increased by approximately 11.5%.** This increase is necessary in order to restore the formula to the point where it is capable of bringing about full equalization. The Commission outlined 3 options, each with different cost implications, for achieving this increase. Under the option favoured by the Commission, $23.5 million would be added to the aggregate level of foundation grants.
- **The Commission recommends that the sparsity factor be phased out.**

Other factors in the formula now achieve more effectively the objective behind the sparsity factor.

- **The Commission recommends that conditional funding for students with high cost learning disabilities be discontinued and that unconditional funding be substituted to parallel the financial approach which is now used for students with low cost disabilities.**

This will remove current inappropriate financial incentives for the designation of students with learning disabilities and will encourage more resources to be put into diagnosis and student services, rather than testing for eligibility for conditional grants.

PART IV

CAPITAL REQUIREMENTS AND FUNDING MECHANISMS

CHAPTER ONE

BACKGROUND

1. THE NATURE OF CAPITAL

There are two main bases on which capital expenditures are distinguished from operating expenditures:

- Useful Lifetime

  Expenditures are generally considered to be of a capital nature if the result of the expenditure is the purchase or creation of an asset which has a relatively long useful lifetime.

- Size of Expenditure

  Capital items are often large in comparison with annual operating budgets and, for this reason, they are often financed over a period of years.

The major classifications of capital expenditures by local governments are:

- Land. The initial purchase price and improvements or modifications to the land, as in the case of parks, are considered as capital.

- Buildings. The cost of purchasing or constructing a building and major renovations which extend the useful life of the building are considered as capital.

- Infrastructure. The construction of and major repairs to water and sewage systems, roads and bridges are normally considered to be capital.

- Equipment. Major equipment purchases are normally considered to be capital.

There are considerable variations among local governments in terms of what they classify as capital expenditures.

2. LEVEL OF CAPITAL EXPENDITURES

Chart IV-1 displays the capital expenditures of urban municipalities, rural municipalities and school divisions for 1975, 1980, and 1985.

3. SOURCES OF FINANCING

There are two basic methods for financing capital projects, namely: "pay-as-you-go" which involves extensive use of current funds and limiting the amount of long-term debt used, and "pay-as-you-use", which involves extensive use of long-term debt and a limited amount of current funds.

The premise of "pay-as-you-use" is that the costs of capital projects should be paid over the useful life of the asset by those who use the asset.

The major sources of capital financing are as follows:

A. Debt

Local governments issue debentures or borrow funds from financial institutions as one means of raising revenue to finance capital expenditures. Loans and debentures are used either because they are needed to make up a shortfall in revenues from other sources, or as a means of spreading the cost of the project more evenly over the lifetime of its use.

Local governments in Saskatchewan have utilized capital debt to a much smaller extent than local governments elsewhere in Canada:

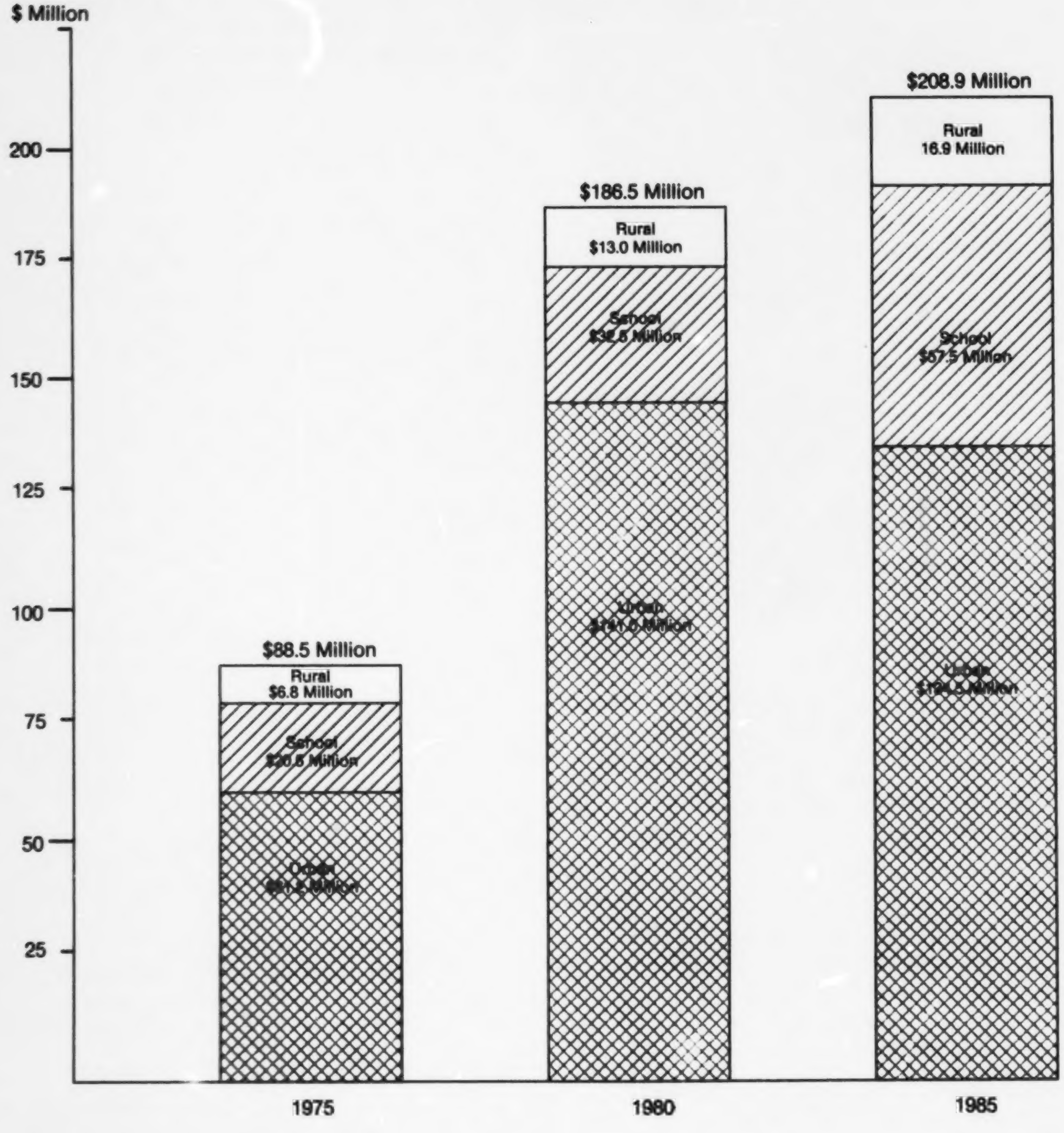
- As of December 31, 1984, Saskatchewan local governments had a long-term debt of $396 per capita, which is lower than any other province in Canada, except Prince Edward Island which was at $373 per capita.

- Manitoba had more than twice the per capita local government capital debt of Saskatchewan; British Columbia had nearly four times as much; and Alberta had about five-and-one-half times as much.

CHART IV-1

CAPITAL EXPENDITURES OF URBAN MUNICIPALITIES, SCHOOL DIVISIONS, AND RURAL MUNICIPALITIES

1975, 1980, AND 1985



- In 1982, debenture debt charges in Saskatchewan amounted to an estimated $35 per capita, the lowest of any province except Prince Edward Island. The national average is more than two-and-one-half times Saskatchewan's amount.

B. Reserves and Trust Funds

Reserves and trust funds are monies set aside by local governments over a period of years for future capital projects. The funds may be intended for either specific projects that have been planned, or for undefined general capital purposes.

C. Current Local Revenues

Current local revenues are revenues raised from local property taxes and other local sources for the general use of the local government. These revenues are used primarily to finance the current operating expenditures of the local government, but they also can be used to finance capital expenditures.

D. Utility Charges

Utility charges are paid by users of utilities in relation to their use of the utility. For example, charges for the consumption of electricity or water are based on the amount of electricity or water used. This reflects the benefit theory of financing public services.

Utility charges may be designed to cover only the operating costs of the utility, or they may be used as well to cover all or a portion of the capital costs.

E. Grants

A major source of financing for capital expenditures are grants from senior levels of government. There are various reasons for or objectives behind capital grant programs, and individual grant programs may be based on more than one of these objectives:

- Benefits Beyond Municipality

  Some conditional grant programs are designed to encourage the construction of capital facilities that provide a benefit beyond the boundaries of the municipality and which may not be built, or built to the optimal size in the absence of provincial assistance.

- Encourage Types of Facilities

  The provincial government may believe it is in the overall public interest to encourage particular types of facilities throughout the province.

- Enforce Standards

  Some standards can be enforced by regulations, while other standards can be implemented by making grants available on the condition that certain standards are met.

- Stimulate Economy

  From time to time, the federal or provincial governments may believe that the economy requires stimulation and make grants available to municipalities with the intent of encouraging public spending and generating employment.Winter works programs are examples.

- Meet Particular Needs

  From time to time, local governments may have a need which cannot be met without putting an undue strain on local revenues.

- Equalization

  By providing capital grants, the provincial government may hope to enable a greater number of local governments to avail themselves of capital facilities without unduly high local tax rates, thereby promoting a greater degree of equality in facilities and local tax rates than would otherwise be the case.

- Reduce Reliance on Local Revenues

  By providing capital grants, the degree of reliance on local revenues can be reduced from what it would otherwise be.

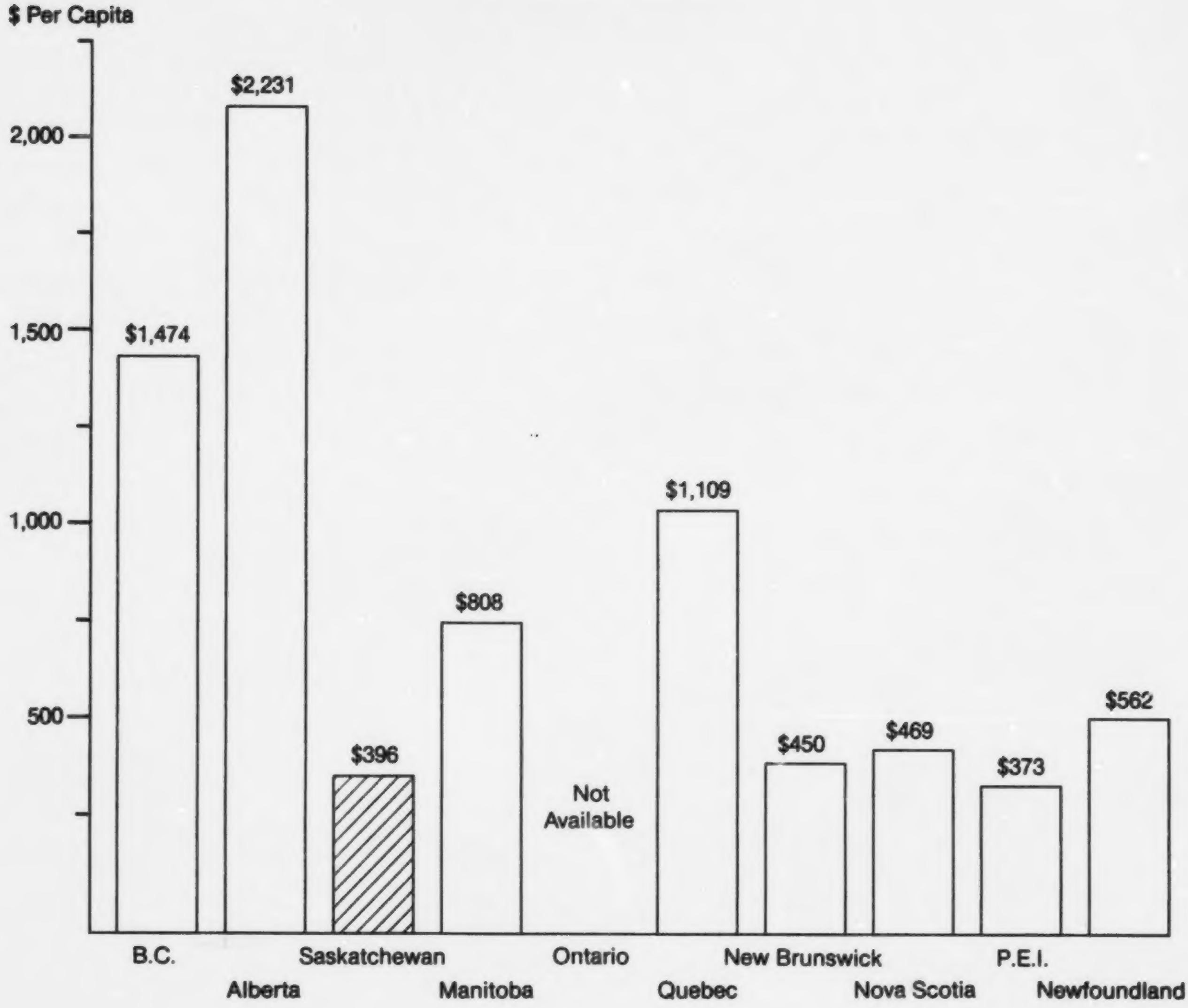
4. CONDITIONALITY/ UNCONDITIONALITY

All capital grants have some conditionality associated with them, but the degree of conditionality varies considerably.

The Commission believes that there is a need for both conditional and unconditional capital funding from the provincial government.

The arguments in favour of unconditional funding are as follows:

CHART IV-2
PER CAPITA DEBENTURE AND CAPITAL LOAN DEBT AS OF DECEMBER 31, 1984



- Local Judgments

  The type of capital need varies among individual local governments. Local officials are in the best position to make judgments about what types of capital facilities are most needed in their respective communities.

- Artificial Priority

  Conditional grants can create an artificial priority for certain projects, and this may not be in the public interest.

- Autonomy

  Unconditional allocations are compatible with encouraging local decision-making and local autonomy.

Conditional grant programs are required because there are certain major capital needs that do not occur uniformly over time or for which there are substantial differences in need among local governments. For example:

- Some rural municipalities may have essentially the same type of overall expenses to meet the needs of its road system, but may have a very high expense for building and maintaining bridges that other municipalities do not face. A grant program that provides provincial assistance for bridges has merit in meeting this particular type of need.

- At different times, different urban communities have been faced with the need to make very large expenditures for their water supply. In some of these situations, special assistance targetted at meeting this particular need has been required because the expenditure has been beyond the financial capacity of the local community to meet.

In all of the above-noted cases, it makes little sense to make large payments of capital monies to **all** jurisdictions to cover specific major needs when only some of them have particular needs of major proportions.

CHAPTER TWO

URBAN MUNICIPAL CAPITAL

1. OVERVIEW OF EXPENDITURES AND REVENUES

Over the 1971 to 1985 period, total urban municipal capital expenditures increased by a compound annual average rate of 14.6%. The capital expenditures of cities increased by 13.7% per year, while the increases were 16.6% and 18.2% per year, respectively, for towns and villages.

The average per capita expenditure over the 1977 to 1985 period was $192.14 for urban municipalities as a whole. Villages and towns spent $133.36 and $212.72, respectively. Cities spent $193.16 per capita, very close to the overall urban average.

Over the 1971 to 1983 period, the bulk of urban municipal capital expenditures were accounted for by two main categories. Transportation (streets, sidewalks, bridges and transportation machinery and equipment) amounted to 36.0% of total urban capital expenditures, while utilities accounted for 31.4%.

For 1984, capital grants from provincial and federal governments constituted 28.2% of the total source of financing, current revenues 21.0%, long-term debt 14.5%, and other various sources 36.4%.

Within the 1971 to 1984 period, there have been some substantial shifts in the importance of the different sources of revenue. From 1971 to 1974, inclusive, capital grants constituted only 17.0% of the total, while over the 1980-84 period, they constituted 33.3%. Long-term capital debt constituted 28.0% of the total in the 1971-74 period, but in the 1981-84 period, this had dropped substantially to 17.6%.In the same respective time periods, current revenue contributions remained relatively constant, while other sources of revenue dropped by about 5 percentage points from 33.9% to 28.7%.

In 1985-86, there were 10 provincial capital grant programs for which urban municipalities in general were eligible, and 4 special grant programs to specific communities. Only one of these programs, the Provincial Capital Fund (P.C.F.), provided monies on an unconditional basis.

Most of the provincial grant monies were paid out under 4 programs in 1985-86 - P.C.F. at $12.5 million, Municipal Water Assistance at $3.6 million, Urban Assistance at $5.0 million and Cultural and Recreation Facilities at $4.6 million.

Federal capital grants to urban municipalities for general purposes have virtually disappeared and have been replaced by one-time grants to selected municipalities for specific projects such as the Regina/Moose Jaw Water Filtration project.

2. ANALYSIS OF ISSUES

A number of issues arise in regard to the level of capital expenditures required and how they should be financed:

A. Level of Expenditures Required

Determination of the level of capital expenditures required by urban municipal governments is a very complex and subjective matter.

One means of projecting capital expenditures is to undertake surveys of municipalities to determine what they perceive their own needs to be. In 1984, the Saskatchewan Urban Municipalities Association undertook such a survey, but there was considerably less than full response by municipalities. The Department of Urban Affairs used these partial survey results as a means of extrapolating what all municipalities would have collectively projected had they all replied to the survey. The results of this projection are shown in Table IV-1.

The extrapolated S.U.M.A. survey projects capital expenditures averaging $235.8 million per year over the 5 year period, 1986 to 1990. This represents an increase of 58% over the average actual annual expenditures in the 1981 to 1985 period.

The Commission also made a projection based on the long-term trends since 1971. This projection suggests that capital expenditures in the 1986 to 1990 period will average approximately $167 million per year, an increase of 12% over the immediately preceding 5 year period.

The Commission has concluded that there are no apparent signs of a major backlog of capital requirements in Saskatchewan and that its projection of capital requirements based on long-term trends is likely to be closer to actual requirements than the results of the S.U.M.A. survey. The reasons for this conclusion are as follows:

- Municipalities are lagging in their use of provincial government capital grant programs.For example, only 2 years remain in the 5 year Culture and Recreational Facilities Grant Program,

TABLE IV-1
ACTUAL AND PROJECTED CAPITAL EXPENDITURES URBAN MUNICIPALITIES

Year	Actual Expenditures ($ Millions)	Projections Based on Survey ($ Millions)*	Commission Projection ($ Millions)
1971	$ 19.9		
1972	21.7		
1973	23.1		
1974	37.4		
1975	61.2		
1976	90.4		
1977	85.3		
1978	94.9		
1979	127.2		
1980	141.0		
1981	153.0		
1982	173.8		
1983	136.8		
1984	148.9		
1985	134.5		
1986		$260.6	$145.5
1987		284.2	156.5
1988		241.5	167.5
1989		204.1	178.5
1990		183.6	188.5

---

*This is based on a survey of urban municipalities conducted in 1984 by the Saskatchewan Urban Municipalities Association, to which not all municipalities responded. The Department of Urban Affairs used the partial results to extrapolate what the responses would have been had all municipalities responded to the survey.

yet to the end of March 31, 1986, only $13.5 million of the estimated $32 million had been paid out under the program. A total of $17.0 million, more than one-half the 5 year allocation, remains uncommitted (not yet assigned to projects proposed by municipalities).

Similarly, at the end of March 31, 1986, only slightly more than one-third of the monies under the Provincial Capital Fund had been paid out, even though one-half of the 2 year period for the program had transpired.

- Urban municipalities in Saskatchewan have a very low level of capital debt. If there were pressing needs for major additional capital expenditures, municipalities could be expected to use this as a source of financing to a greater extent.

B. Sources of Capital Financing - General

The Commission examined the various sources of capital financing which are available to municipalities:

1) Capital Debt

The Commission believes that the relatively low level of capital debt in Saskatchewan municipalities points to the potential for greater use of debentures and capital loans as a means of financing capital requirements.

Excessive use of capital debt can unduly burden future taxpayers who must be responsible for retiring the debt. However, the extremely low level of capital debt in Saskatchewan suggests that considerably more capital debt could be used before it became burdensome.

2) Current Revenue Contributions

Current revenue contributions have constituted an average of about 20% of total capital revenue over the 1971 to 1984 period.

The Commission believes that 20% is a very substantial percentage of capital costs to be financed from current revenue. The Commission believes that it should not be looked to as a source from which substantially more monies above the current level of approximately $30 million per year should be raised.

3) Revenue from Utilities

The Commission believes that greater emphasis should be placed on the self-financing of utilities, particularly sewer and water utilities. In other words, utility charges should be set at levels where they will not only pay for the ongoing operating costs of the utility, but for the amortized cost of the capital facilities as well.

The Commission believes that there are three main benefits which can be derived from having self-financing municipal utilities:

- Municipalities which finance utility deficits from general operating revenues, put additional demands on the local property tax. Setting utility rates at levels which fully cover operating costs would ease the demands currently placed on the property tax.
- If municipalities were to borrow for their capital expenditures on utilities, utility rates could be set at

levels sufficient to cover both the operating costs and the retirement of the debt. This spreads the capital cost of the utility over the generations who actually use the utility, rather than placing an undue burden on current taxpayers.

- Municipalities which borrow to finance capital utility costs can reallocate the capital grants they may have otherwise used for the utility to other projects required in the municipality. This will make it possible to meet more of the non-utility capital needs in the municipality.

4) Capital Grants

In some respects, the Commission believes that senior government grants play too large a role in local decision-making on capital projects. There is a tendency for municipalities to make the availability of capital grants the focal point of their planning processes. It would be preferable for municipalities to make decisions on priorities for capital projects and their timing on the basis of the respective needs to be served by the project rather than on the size and timing of provincial grants and the conditions which may be attached to the grants.

The Commission believes that municipalities will begin to increase their capital expenditures over the next five years to meet their ongoing needs in accordance with the projections noted earlier.

C. Grants: Conditional v.s. Unconditional

The Commission believes that both unconditional and conditional grants are required. Unconditional grants are a preferable means of providing provincial financial assistance in regard to capital needs which occur relatively uniformly throughout urban municipalities of different sizes and circumstances. Because grants are unconditional, municipalities are able to make best use of the monies and do not have their priorities distorted by the availability of capital grants for some projects, but not others.

Conditional grants are needed to provide assistance under special circumstances in regard to particular needs that do not occur uniformly among municipalities.

Conditional grants are also required sometimes in order to enforce standards, fulfil a priority of the provincial government, or to ensure broad societal needs that go beyond the boundaries of individual municipalities are met.

The Commission believes that an unconditional capital grant program like the Provincial Capital Fund should be continued.

The Commission believes that each of the current conditional capital grant programs such as Municipal Airports and Urban Assistance, has a useful role and that these conditional capital grant programs should be continued.

3. CONCLUSIONS AND RECOMMENDATIONS

- **The Commission has concluded that urban municipalities will require capital expenditures of an average of approximately $167 million per year over the next 5 years in order to meet their requirements.** This represents an increase of 12% over the average level of the past 5 years. The lag in the "take-up" of provincial grants and the low levels of capital debt suggest that there is no major backlog of capital requirements in Saskatchewan.

- **Urban municipalities can make more extensive use of capital loans and debentures in financing their capital expenditures.**

  The level of capital debt is very low in Saskatchewan relative to other provinces. Saskatchewan municipalities can make more extensive use of capital loans and debentures in spreading the cost of capital projects over their useful lifetime without putting an undue burden on future taxpayers.

- **The Commission has concluded that capital loans and debentures should be used to finance a greater proportion of the capital cost of sewer and water utilities, and that user charges should be set at levels which will cover operating costs as well as the amortized cost of capital works, including the repayment of the capital loans and debentures.**

  The Commission believes that it is appropriate for user charges to be used in the financing of utilities, particularly sewer and water, so that these utilities are self-financing. Self-financing of utilities reduces the load on the local property taxpayer.

- **The Commission recommends that Municipal Water Assistance and Water Pollution Control**

Grants should be restructured to reflect the general objective of financing water and sewer utilities through reasonable user charges. Grants should be focused on those municipalities which require capital grants to keep their utility rates within reason and without the need for a general municipal subsidy. Municipalities which can meet their capital costs with reasonable user charges do not require and should not receive M.W.A.P. grants and W.P.C. grants.

- **Both conditional and unconditional grants are required to meet the needs of urban municipalities.** Unconditional grants are appropriate for meeting general capital requirements that are common among all municipalities. They allow municipalities to set their own priorities and it results in a more efficient use of monies.

  On the other hand, conditional grants are required to meet the particular needs arising from relatively unique situations.

- **The Commission recommends that the Cultural and Recreational Facilities Grant Program continue until its scheduled expiry date, but that the program not be extended or renewed.**

- **The Commission recommends the establishment of a new ongoing unconditional capital grant to replace the Provincial Capital Fund and the Cultural and Recreational Facilities Grant Program. The initial level of the fund should be no less than $30 per capita per year.**

  This is the equivalent of the current Provincial Capital Fund of $25 per capita, plus the Cultural and Recreational Facilities Grant Program of $5 per capita.

- **The Commission recommends that the new provincial capital program be ongoing (no specified termination date) and that a mechanism be established to increase the amounts over time.**

  The last three capital programs have been for specific time periods. An ongoing capital program would provide municipalities with a high degree of certainty in regard to the availability of grants and they could plan accordingly.

  The size of the capital fund should accommodate increased capital costs and increases over time in the overall level of urban capital expenditures

  This could be accomplished by the development of an escalator index or by using a dedicated tax (the proceeds of which would grow over time) to finance the capital fund.

- **Municipalities should be able to receive their allocations each year, either to spend in that year on capital projects, or to place in a Capital Trust Fund for use in a subsequent year. Interest earnings on these funds should be retained in the Capital Trust Fund.**

  Depositing the annual allocations directly into Capital Trust Funds would have several advantages:

  — It would allow municipalities to earn interest on their unused allocations. Currently, municipalities feel pressured into spending their allocations as soon as possible because inflation diminishes the real value of the grants over time. By retaining the interest earnings in a capital trust fund, this type of pressure would be removed from municipalities and they would be able to spend the monies when it is advantageous for them to undertake the capital project.

  — Some municipalities are unable to take advantage of their allocations under the current programs because the monies are insufficient to meet the required costs of the facilities they require.By having an ongoing program and by being allowed to place annual allocations in a capital trust fund, municipalities would be able to accumulate the allocation for whatever number of years is required until the amount is sufficient to enable them to undertake the project. This would be of particular value to smaller municipalities.

  — A municipality could choose to accumulate its grant and proceed with a project once sufficient funds were available from local sources and the capital trust fund. Alternatively, a municipality could choose to borrow money for a project and spread the costs over a period of years. Using the grant to repay the debt would increase local flexibility in choosing whether to finance capital projects by accumulating funds or to borrow and spread the costs over a period of years.

  Making annual grant payments to municipalities would serve to strengthen local autonomy, by giving municipalities more control over the financing arrangements for their capital projects.

- **The Commission recommends that the unconditional capital grant be paid on a per capita basis. The Commission further recommends that equalization of capital financing be achieved by recognizing standard amounts for capital debt retirement, transfers from the operating fund for capital expenditures, and transfers to capital reserves in the urban revenue sharing foundation grant formula.**

  Per capita grants are simple and there is a high degree of certainty involved in regard to amounts which individual municipalities will receive.

The standard amounts for capital debt retirement, transfers from the operating fund for capital expenditures and transfers to capital reserves would be intended to reflect the average local shares of capital projects on an ongoing annual basis. By recognizing these amounts in the foundation formula under the revenue sharing program, equalization in the ability of municipalities to finance the local share of capital expenditures would be provided.

The Commission emphasizes that the foregoing proposal will operate effectively only if the foundation formula is fully implemented, as recommended in Part III.

CHAPTER THREE

RURAL MUNICIPAL CAPITAL

1. OVERVIEW OF EXPENDITURES AND REVENUES

Capital expenditures by rural municipalities in 1985 amounted to an estimated $16.9 million. Over the 1971 to 1985 period, rural capital expenditures increased by a compound average annual rate of 9.5%.

Over the 1971 to 1984 period, machinery and equipment accounted for an average of 84.5% of total capital expenditures, buildings 8.9%, engineering structures 5.0%, and land 1.7%.Most of the machinery and equipment was for road maintenance and construction.

LONG-TERM DEBT

Rural municipalities have issued very little debenture debt to finance capital projects. The long-term debt incurred by rural municipalities has been in the form of two to four year loans from financial institutions and internal borrowing from capital trust funds.

Over the last 5 years, long-term debt accounted for an average of 31.1% of rural capital financing.

CAPITAL GRANTS

Capital grants represented approximately 2.9% of total rural capital financing over the last 5 years.

Rural municipalities are eligible to receive grants under the Provincial Capital Fund, the Cultural and Recreational Facilities, and Water Assistance Grant programs. In most cases, these grants are paid to the rural municipality on behalf of hamlets within their boundaries, rather than for general rural municipal projects.

CURRENT REVENUES

Approximately 47.8% of rural capital financing came from the operating fund over the last 5 years.

OTHER SOURCES

Proceeds from the sale of property or other capital assets, donations, interest earnings of the capital fund and funds available from previous years accounted for approximately 18.1% of rural capital finances over the last 5 years.

2. ISSUES

Rural municipal officials have expressed concern about the lack of an unconditional capital program for general rural municipal purposes similar to the Provincial Capital Fund. They believe that they are at a financial disadvantage relative to urban municipalities. For example, in the case of a joint urban and rural municipal project, the urban municipality can receive provincial capital grants to offset part of its share of the project costs. However, the rural municipality would generally be ineligible for assistance and it would have to meet its share of the project costs without any direct provincial capital grants.

On the other hand, some would suggest that an unconditional capital grant program is unnecessary because the predominant activity of rural municipalities is road construction and maintenance which is already financed under rural revenue sharing.

3. CONCLUSIONS AND RECOMMENDATION

The Commission recommends the establishment of an ongoing unconditional capital grant program for rural municipalities.

The Commission believes an ongoing, unconditional rural capital grant is required for the following reasons:

- It would provide for greater equity between rural and urban municipalities for provincial financial assistance for general capital projects.
- It would reduce the amount of local dollars needed for rural capital projects and thereby ease the pressure on rural municipal property taxes.
- Unconditional funding enhances local autonomy and recognizes that priorities among competing projects are best decided at the local level.

The Commission recommends that the unconditional rural capital grant program be set at an initial level of no less than $15 per capita per year.

The main objective of the unconditional rural capital grant program is to provide assistance for general rural municipal projects such as community halls, machine shops, etc., for which limited or no funding is currently available.

The Commission notes that unconditional urban capital grants are used for a wide variety of capital purposes, including a significant proportion spent on transportation. Except for Urban Assistance grants for highway connectors, urban municipalities do not receive any other grants for transportation expenditures. On the other hand, rural transportation expenditures are financed to a significant degree under rural revenue sharing.

In the view of the Commission, an initial unconditional capital grant of no less than $15 per capita per year would be appropriate in addressing general rural capital needs.

The Commission proposes that the program be operated in a way which is similar to the proposed new unconditional capital program recommended earlier for urban municipalities.

The Commission recommends that rural municipalities be permitted to use the capital grants for road or bridge construction if they so wish.

The Commission believes that rural municipalities should have a maximum of flexibility in the use to which they put the monies, and an unconditional grant would accomplish this.

If municipalities were unable to use the grants for road or bridge construction, but were able to use them for the purchase of machinery and equipment that could be used in road construction, municipalities would be given a strong financial inducement to undertake their own road or bridge construction and avoid the tendering of such projects to the private sector. The Commission believes that the grant formula should neither favour nor discourage contracting versus use of the municipalities' own forces.

The Commission believes that additional analysis and consultations are required concerning the distribution of the proposed unconditional rural capital grant. The monies could be distributed to municipalities on a straight per capita basis, or on the basis of a certain percentage of the standard annual expenditure requirements used in the equalization formula.

As with the proposed urban capital program, it may be desirable to have components in recognized expenditures in the equalization formula to account for current revenue contributions to capital, thus having an equalizing effect on the overall distribution of capital funds.

CHAPTER FOUR

SCHOOL DIVISION CAPITAL

1. OVERVIEW OF EXPENDITURES AND REVENUES

A. Expenditures

School capital expenditures are estimated to total $57.5 million in 1985.

An average of about 96% of school capital expenditures are for new schools, replacement of existing schools, additions to schools, major renovations and repairs, and the land and instructional equipment and furniture associated with those projects. The other 4% consists of school buses, other buildings (such as offices, storage facilities shops, bus garages) and miscellaneous equipment.

School divisions are required to obtain the approval of the Department of Education before undertaking capital projects.

The Department of Education forecasts that school capital requirements will remain at approximately $55 million per year over the next 5 years.

B. Sources of Financing

There are three main components to the funding structure for capital projects:

- Capital Grants

  Capital grants range between 15% and 30% of the combined cost of construction and architectural fees, depending the relative wealth of the school division.

- Downpayment

  The school division is required by the Local Government Board to make a downpayment roughly equivalent to the annual repayment of any capital indebtedness incurred, in the year in which the project is undertaken. In order to ensure that the downpayment is not overly burdensome to a school division, for each capital project the Department of Education reimburses the school division for that portion of the downpayment which is in excess of the equivalent of five mills on the local tax base of the school division.

- Debentures and Capital Loans

  Subject to the approval of the Local Government Board, debentures or capital loans are used to finance the residual amount after taking into account the capital grant, downpayment and miscellaneous revenues. The interest and retirement of the principal are fully reimbursed by the Department of Education.

C. Sources of Revenue

In 1985, capital grants accounted for an average of approximately 17% of the source of revenue for school capital projects, while current revenue contributions (mainly for downpayments in regard to capital borrowing) accounted for approximately 15%. Debentures accounted for about 45%, while capital loans and reserves accounted for another 13% of total revenues.

In 1975, capital grants averaged approximately 30% of the approved cost of capital projects. The reduction in the proportion of costs covered by grants over the 1975 to 1985 period is the result of conscious decisions to lower the average capital grant percentages in order to permit the capital grant budget of the Department of Education to be spread among a greater number of projects, and to permit more projects to proceed than would otherwise be possible.

Outstanding debenture debt for school divisions totalled $185.9 million as at December 31, 1984. This compares with $64.2 million as at December 31, 1974.

2. OVERVIEW OF ISSUES

The issues associated with the capital funding of school divisions are:

A. Approval Process/Criteria

All capital projects and their financing must be approved by the Minister of Education. Several issues arise in connection with the approval process used by the department.

— Length of Time for Approvals.

Concerns have been expressed that the process is unnecessarily long.

— Timing of Issuance of Approvals.

Concerns have been expressed that the timing of approvals forces an unnecessary amount of construction during winter months.

— Adherence to Criteria.

Concerns have been expressed that there has been an emerging tendency to place less reliance on the published criteria and more reliance on other factors, such as no more than one project being approved for one school division in a year, which are of less relevance to the needs of students.

— Long-Term Planning.

Concern has been expressed that the current approval processes discourage long-term planning. It has been suggested that unless the Department of Education itself is prepared to make long-term commitments on the level of funding it will provide and the types of projects which will be approved, long-term plans of school divisions tend to be academic exercises.

— Timing of Debenture Issues

It is a policy of the Local Government Board that all debentures be issued in connection with a capital project be sold before a contract is awarded.

Some school divisions believe that this policy injects unnecessary rigidity into the financing of school projects, causing costs of borrowing to be higher than necessary.

B. Level of School Capital Debt

Questions arise as to whether debt has been used too extensively in the financing of school capital projects and whether there is an excessive or burdensome amount of school capital debt.

C. Conditionality of Capital Funding

The question arises as to whether provincial capital funding for school divisions should be made on an unconditional basis, similar to the Provincial Capital Fund for urban municipalities, or whether conditional funding should continue.

D. Percentage of Provincial Assistance and Incentives

The only local financial input required of school divisions for a capital project is the downpayment which the school division must make in the year in which the borrowing takes place. Some suggest that the low level of local input for school capital projects encourages school divisions to seek approval for projects which are of low priority or to seek projects which are larger or more expensive than necessary.

E. Capital Renovations and Repairs

ROOFS

Occasionally, a roof of a school facility requires a major renovation or replacement. Roof projects costing at least the equivalent of one mill on the local tax base of the school division, or $50,000, whichever is the lesser, are considered to be capital expenditures and are eligible for assistance under the capital grant policy. School divisions are required to contribute the equivalent of 1 mill toward the financing of the project, but in other ways, the normal capital policies apply. In 1985, 37 roof repair projects costing a total of $5.8 million were approved by the Department of Education.

Two major concerns have been expressed in regard to the current policy on the financing of roof repair projects:

- Under certain situations, a school division has the choice of spending moderate amounts on a regular basis to maintain or repair roofs or to wait until a major repair or replacement costing a large amount must be done but which may be eligible for provincial capital assistance.There is a financial incentive for school divisions to do the latter even though overall costs may be larger.

- There is a backlog of requests for capital roof repair projects because the budgetary allocation of the Department of Education for such projects does not match the number of projects which are required.

RENOVATIONS

Representatives of larger urban school divisions have expressed concern about a growing backlog of projects required to extend the useful lifetime of certain facilities. However postponement of the renovation would not, in itself, cause further deterioration of the facility, as would a leaking roof. Their concern is that few such projects have received provincial funding approval, and that the general state of school facilities is, consequently, undergoing slow deterioration.

3. CONCLUSIONS/RECOMMENDATIONS

A. Approval Processes/Criteria

In connection with the processes and criteria used in the approval of school capital projects by the Department of Education, the Commission recommends:

- **That the Department of Education announce approval of all high priority projects in early November of the same year in which requests have been submitted by school divisions, and that approval of remaining projects be announced at the time of the Budget Speech.**

  Certain categories of projects have relatively little discretion attached to them and the earlier they are announced, the better.

- **That the Department of Education adhere closely to the criteria which it has developed for prioritizing projects requested by school divisions.**

  Superimposing quotas (such as no more than one major project per division) on top of the long-standing published criteria has the effect of undermining confidence in the processes and criteria used in evaluating projects.

- **That the Department of Education promote long-term capital planning by the issuance of a policy statement on capital projects to supplement the criteria for prioritizing projects.**

  This policy statement should include a description of the present status of school facilities in the Province, the types of current and future needs, the costs of meeting those needs, and the philosophy and approach (including financing) the Department of Education intends to use in meeting those needs.

B. Level of School Capital Debt

The Commission has concluded that the level of school capital debt is not a basis of concern in the overall funding of education.

The Commission notes that the costs of capital debt retirement currently amount to about 7.5% of total operating expenditures of school division and that this percentage has not changed significantly over the past 15-year period.

C. Conditionality of Capital Funding

The Commission has concluded that it would be inappropriate to have unconditional capital funding for major school capital projects, and that conditional funding should be retained. In the view of the Commission, decisions on needs for capital projects need to be made on a project by project basis. Unconditional funding would simply provide some divisions with more funds than they require, while other divisions would not receive the level of funding required to meet their needs. In short, unconditional funding for school capital projects would be wasteful of limited public funds and would be much less efficient in achieving equalization in relation to the current arrangements.

D. Percentage of Provincial Assistance and Incentives

The Commission recommends that the current method of financing major capital projects be retained, including the full reimbursement of approved capital debt retirement.

The Commission believes that provincial funding averaging close to 90% of capital project costs does provide an encouragement for school divisions to seek approval for projects which are desirable, but which may not be given a high priority by the school division board if the projects had to be financed to a greater extent from local tax sources. The Minister of Education is in the position of making final decisions on projects and having to accept the political accountability for those decisions.

The Commission considered an option which would place greater financial responsibility for capital projects on school divisions.[1] However, the use of an explicit set of criteria by the Department of Education in approving projects serves to "weed out" low priority projects. On balance, the Commission believes there is merit to continuing the present system which provides for full equalization for financing major capital expenditures.

E. Roof Repairs

The Commission recommends that consideration be given to providing school

---

[1] This option is outlined in **Final Report** - main volume.

divisions with a varying percentage of assistance for roof repair projects in accordance with the wealth of the school division.

This option would provide equalization in the funding of roof repair projects and would provide school divisions with a financial incentive to do adequate ongoing maintenance on roof repairs.

The main components of this option are outlined in the **Final Report** - main volume.

F. Renovations

The Commission considered an option under which:

- The provincial share of capital debt retirement costs would be tied to the wealth of the school division.
- The Department of Education would provide an unconditional capital grant based on the number of students in the school division, with which the school divisions would be expected to finance ongoing renovations. The unconditional capital grant would be financed from the savings derived from reimbursing divisions for less than 100% of capital debt retirement.

This would provide school divisions with the flexibility of addressing their renovation requirements in accordance with their own assessment of needs and in accordance with the timing that the school division believed was appropriate.

The Commission believes the option is worthy of further exploration, but it was unable to assign sufficient resources to exploring the implications of the option to reach a definite conclusion on its merits.

CHAPTER FIVE

CENTRAL DEBT FINANCING AUTHORITIES

1. DESCRIPTION OF PRESENT FINANCING MECHANISMS

The Local Government Board (L.G.B.) must approve all long-term loans and must authorize all debenture issues of local governments. The L.G.B. approves the size of the debenture, the terms of the debenture, including the interest rate, the term, and the form and content of the debenture document itself. The L.G.B. does not become involved in the actual sales transactions, but it does assist local governments by offering marketing advice to local governments and providing information to investment dealers.

The magnitude of debentures issued by local government in Saskatchewan is relatively small compared to other provincial jurisdictions. In 1985, debenture issues signed and sealed by the L.G.B. had a total value of $40.2 million.

Local governments may sell a portion of their debentures to the Saskatchewan Municipal Financing Corporation (S.M.F.C.).Current policies of S.M.F.C. limit its participation to 50% of the debentures issued by local governments, except the cities of Regina and Saskatoon for which the limit is 40%.

In 1984, S.M.F.C. participated in the financing of 43 projects by purchasing $13.1 million in debentures.

2. ROLE OF THE LOCAL GOVERNMENT BOARD

The Local Government Board (L.G.B.) performs a financial watchdog function to ensure financial stability and to preserve good credit ratings of local governments. The L.G.B. acts as a credit manager to help ensure that local authorities do not undertake projects beyond their means.

Over the years, the L.G.B. has developed a number of policies which it feels assist local authorities in developing and maintaining good financial management and good credit ratings. Some of these current policies which influence debenture issues are:

- Construction contracts must not to be awarded until the required financing has been arranged and the sale of debentures has been assured, except in the case of a local improvement.
- The local authority must make a downpayment equivalent to one year's debt charges (principal and interest).
- The L.G.B. will not approve debentures for greater than 10 years.
- Local authorities are encouraged to sell their debentures locally, rather than going to the national and international market place.
- The L.G.B. will not approve a borrowing arrangement where only the interest and no principal would be paid in any one year.
- Local authorities are encouraged to finance capital projects by accumulating reserves and capital trust funds and by providing as much funding as possible out of current revenues. When practical, the L.G.B. suggests financing part of a capital project by long-term loans of two to four years instead of issuing debentures.
- Local authorities are encouraged to issue debentures carrying annual interest payments.

3. ROLE OF THE MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

The Municipal Financing Corporation of Saskatchewan was established to assist in making capital funds available for the financing of essential capital projects by local governments. The S.M.F.C. obtains funds by borrowing directly or through the Department of Finance and uses the funds to purchase a portion of the authorized debentures issued each year by Saskatchewan local governments.

The S.M.F.C. does not perform a regulatory role. It has no authority to influence the amount or term of a debenture issued by local authorities. Each local government has the option as to whether it wishes S.M.F.C. to purchase a portion of its debenture issue and which portion of its issue it wishes to sell to S.M.F.C.

S.M.F.C. does not structure its interest rates nor does it place restrictions on the term of the debentures it purchases. As a result, local governments tend to sell S.M.F.C. the longer-term (5 to 10 year) portions of their debentures because the shorter-term debentures are easier to sell to other potential purchasers. S.M.F.C. establishes its interest rates monthly based on long-term borrowing rates of the Province of Saskatchewan. When these rates differ from that of the debentures, S.M.F.C. buys local debentures at a discount or premium.

S.M.F.C. does not make short-term loans to local governments, nor does it purchase any short-term debt issued by local governments (debt repayable within the year it was incurred).

4. CONCLUSIONS AND RECOMMENDATIONS

The Commission has concluded that the present system of marketing local government debentures in Saskatchewan is fundamentally sound.

The present system meets what the Commission believes are the three most important criteria for evaluating a debenture marketing system:

- The ability of local governments to sell their debentures.
- The ability to obtain competitive interest rates.
- The maintenance of local responsibility and accountability.

Local governments have had little difficulty finding buyers for their debentures at competitive interest rates. This is due in part to their ability to find local buyers, the preparedness of the Municipal Financing Corporation to purchase the longer term securities and the relatively low level of risk associated with the issues. The low risk factor is largely attributable to the regulatory role performed by the Local Government Board.

The Commission believes that local responsibility and accountability are promoted because local governments must individually accept the ultimate responsibility for marketing their debentures. Extensive local sales of debentures also promote local responsibility and accountability.

The Commission recommends the retention of the current system of marketing debentures.

The Commission considered the applicability of the British Columbia model to Saskatchewan.[1] The Commission believes the Saskatchewan system works well and sees little need to bring about major changes to the basic structure of marketing debentures.

The Commission recommends that the Municipal Financing Corporation update the interest rate at which it is prepared to purchase debentures more often than its current practice of a monthly basis, and that the rates be "structured" in accordance with the term of the security.

The Municipal Financing Corporation plays a valuable role in assisting local governments with the marketing of debentures.These two changes would augment its performance and would more closely reflect the money markets.

The Commission recommends that the Local Government Board consider several changes in its current policies:

- **Local governments should be permitted to issue debentures with semi-annual or annual payments of interest.** This would improve accessibility of Saskatchewan local government debentures in some markets.
- **Local governments should be permitted to issue debentures of longer than 10 years in certain circumstances.** One of the purposes of debt financing is to spread the capital cost of certain facilities over their useful lifetime, and for some large facilities, differences in the term of the securities make a substantial difference in the annual debt retirement load.
- **Local governments should be allowed to award contracts before debentures are actually sold.** The current policy of requiring debentures to be sold before contracts are let requires certain local governments to issue debentures at an inopportune time.

  The Commission emphasizes, however, that local governments should not be permitted to award contracts until the Local Government Board has authorized a debenture issue.
- **Local governments should be allowed to change the interest rate on debentures below the approved rate, as an administrative matter not requiring a bylaw.** Once the interest rate is set by bylaw, the Commission believes local government should have greater flexibility in adjusting the interest rate as the market place changes and, accordingly, interest rates on debentures need to be adjusted to respond to the market.

The Commission has concluded that the Local Government Board performs a valuable role in serving as a financial watchdog to ensure the financial stability and to preserve the credit ratings of Saskatchewan's local governments. The proposed changes in Board policies would serve to make the Board more effective.

The Commission recommends that *The Local Improvement Act* be amended to permit debentures to be issued before the local improvement work is completed and prepayments collected from abutting property owners.

The current practice of requiring all the work to be done and prepayments collected from abutting property owners reduces local government flexibility in the timing of its debentures or loans.

---

[1] The B.C. model is described in **Final Report** - main volume.

PART V

HOSPITAL GOVERNANCE AND FINANCE

1. HOSPITAL GOVERNANCE IN SASKATCHEWAN

There are four types of acute care[1] hospitals operating in the province:

A. Crown Hospitals

The four acute care Crown hospitals are the University Hospital, Regina General Hospital, the Pasqua Hospital, and the Plains Health Centre. The latter two hospitals are governed by the Board of the South Saskatchewan Hospital Centre. The physical facilities of Crown hospitals are owned by the Government of Saskatchewan, but are operated by independent boards of governors. The members of each board are appointed by the provincial government.

B. Union Hospitals

The 110 union hospitals constitute the largest group of hospitals in the Province. Union hospitals are governed by boards of directors, consisting of persons appointed by the councils of the participating municipalities as authorized by **The Union Hospital Act.**

The Union Hospital Act enables municipalities in neighbouring geographical areas to join together to provide support to a local hospital. The Act enables the hospital board to build and maintain a hospital, to purchase or otherwise take over an existing hospital, or make grants to a hospital without owning it.Although there are 110 union hospitals operating in the province, there were 116 established union hospital districts as at March 31, 1986. There are nine districts which do not own and operate a hospital; however, eight of these districts operate health and social centres. Two hospital districts own and operate more than one hospital.

Within each union hospital district, the participating municipalities appoint local representatives to the board based on the equalized assessment of each municipality. The board must have a minimum of five members. Appointments to the board are for two years, and the board member must be a property owner, reside in the municipality, and cannot be a doctor.

C. Religious/Not-for-Profit Hospitals

There are 13 religious/not-for-profit hospitals in the province. These hospitals are owned either by specific religious orders or the Catholic Health Council.Most of the religious hospitals have appointed a local board of management. Some of them have either entered into agreements with union hospital districts or have agreements with local municipalities for financial support under **The Hospital Revenue Act.**

D. Municipal Hospitals

There are two clearly identifiable municipal hospitals operating in the province. The Saskatoon City Hospital is owned by the City of Saskatoon, and the Craik Community Hospital is owned by the Town of Craik and the Rural Municipality of Craik.

2. FINANCING OF HOSPITALS IN SASKATCHEWAN

A. Financing of Operating Costs

In fiscal year 1984-85, Saskatchewan hospital boards spent a total of $487.3 million in operating expenditures and had operating revenues of $479.7 million. Government transfer payments in 1984-85 accounted for 92.6% of the total operating revenue of hospital boards, property taxes and grants-in-lieu of taxes accounted for 2.5%, and other sources of revenue accounted for 5.0%.

The Saskatchewan Hospital Services Plan (S.H.S.P.) does not pay individual hospital accounts for beneficiaries who receive care. Instead, S.H.S.P. pays what it considers to be reasonable net operating costs (less certain revenue) for each hospital. Three primary factors determine the amount paid to each hospital:

---

[1] Acute care hospitals are those which provide 24 hour medical and nursing supervision for diagnosis and treatment of illness.

- The types of services each hospital should provide.
- The volume of services each hospital should provide.
- The total cost of efficiently providing these services.

The current objective of the provincial government is to provide each hospital with sufficient funds to enable each hospital to fully finance a reasonable level of service, as defined by S.H.S.P.. Hospitals are expected either to live within their allocation provided by S.H.S.P., or to finance any expenditure in excess of that amount from their own sources.

In addition to the provincial payments and local levies, hospitals receive income from patients for items such as preferred accommodation and charges for extended care (Level 4) services and from other agencies such as the Workers' Compensation Board, and the Department of Veterans' Affairs.

B. Financing of Capital Costs

Hospitals spent an estimated $36.6 million in capital expenditures in 1984.

Hospitals are eligible to receive construction grant assistance according to the following basis:

- Base hospital - 100% of approved construction budget, but hospitals are responsible for equipment costs.
- Regional hospital - 70% of approved capital budget.
- Large community hospital (50 or more Average Daily Census) - 60% of approved capital budget.
- Small community hospital (up to 50 Average Daily Census) - 50% of approved capital budget.

There is also a "cost protection grant" available to hospitals:

1) Union Hospitals

   Union hospitals are eligible to receive a "cost protection grant" if their share of approved construction costs exceeds an amount equivalent to 5 mills over 10 years. The Province will assume costs over this amount (5 mills x 10 years), up to a maximum level of 85% of the approved costs.

2) Religious/Not-for-Profit Hospitals

   If a religious/not-for-profit hospital's share of capital costs (net of all grants) exceeds $500,000, the Province will share all costs over that amount on a 50% basis.

The present system of provincial capital grants is based on a tradition of local participation in the funding of hospital capital costs.

The provincial capital grants system also reflects the fact that regional and base hospitals provide larger and more extensive services and facilities.

C. Union Hospital Levy

Where hospitals experience a deficit, this deficit must be met by the hospitals' own sources of funds which, in the case of union hospitals, can include a local tax levy. In 1985, the average union hospital levy was 6.5 mills, 2.3 mills of which was for operating deficit.The average mill rate for the local share of construction costs was 4.2 mills.

D. Hospital Revenue Tax

Since 1966, municipalities which were not members of a union hospital district must contribute 2 mills on their equalized assessment to the provincial government for reallocation to hospitals providing services to the residents of these areas or they must have an agreement with a specific hospital or hospitals which requires a contribution of 2 mills or more to the hospital (s).

The purposes for the introduction of the hospital revenue tax were to raise revenues for hospitals, to provide a disincentive for municipalities to opt out of union hospital districts, and to provide incentives for municipalities to join union hospital districts.

In 1985, the hospital revenue tax levy from 114 municipalities totalled $0.3 million and was distributed to 40 hospitals.

3. ISSUES AND CONCERNS

A number of issues and concerns have arisen in regard to the current governance and financing arrangements for hospitals.

A. Accountability

Hospital boards are independent bodies which have the legislative authority to provide hospital services to the citizens of Saskatchewan. Union hospitals have the added authority to levy taxes on the taxpayers of the hospital district.

The Commission has received comments which suggest that there is room for improvement in regard to the accountability of hospital boards:

- Non-Election of Hospital Boards

  Some have pointed to the fact that hospital boards are not elected. This means that the public is not able to hold members of hospital boards accountable for their performance through the electoral process.

- Local Tax Levies

  Some have suggested that it is contrary to democratic principles to have a non-elected board vested with authority to levy taxes, as are union hospital boards.

- Misplaced Accountability

  Municipal councils have indicated that because they collect taxes on behalf of hospital boards, the municipal council is perceived as being responsible for the union hospital levies.

- Annual Meetings

  Annual meetings are a legislative requirement.However, few hospital boards regularly inform the public of their activity or their financial requirements.

- Religious/Not-for-Profit Hospitals

  Religious/not-for-profit hospitals have private boards of directors for which there is no formal accountability, either direct or indirect, to the public. Some suggest that this is particularly undesirable in cases where the religious/not-for-profit hospital is the only hospital serving the area.

In response to these concerns, others express certain counter-arguments:

- People who are selected to be a member of hospital boards are generally selected because of their interest in hospital services and their desire to serve the public. Hospital board members, in general, endeavour to maintain contacts with the general public and to reflect public desires in their board decisions.

- Religious/not-for-profit hospitals often have local boards of management which endeavour to maintain contacts with the general public.

- Some municipalities have a formal reporting system to ensure feedback and communication with their appointee to hospital boards, thereby promoting accountability of that board member.

B. Participation in Union Hospital Districts

Because of the difference between the average union hospital levies and the two mills hospital revenue tax, there is now a financial incentive for municipalities to opt out of union hospital districts.

C. Access to the Property Tax

Two types of concerns have been expressed in regard to access of hospital boards to the local property tax:

- Some have argued that union hospitals should not have access to the property tax.

  The reasons advanced for this point of view are, first, that hospital services are a provincial responsibility and that they should be completely funded by the provincial government. The second reason advanced is that access by hospital boards to the local tax base provides the opportunity for the provincial government to decide unilaterally to reduce its level of funding of hospital services and, in essence, transfer a greater share of the costs to the local tax base.

- Some have expressed concern that religious/not-for-profit hospitals are disadvantaged by not having access to the local tax base.

D. Division of Responsibility

The regulations under **The Hospital Standards Act** state that every hospital must have an appointed or elected board and that the board has "full administrative control" of the hospital. **The Union Hospital Act** provides additional powers to boards of union hospitals related to their responsibilities for the union hospital district as distinct from the hospital, and provides that a hospital board is a legal entity.

Local hospital boards have the authority to make decisions related to the operation of the hospital.The hospital board also has access to its own funds and can use these funds for any purpose it deems appropriate.

The provincial government has two types of decision-making powers in regard to hospitals: 1) it establishes minimum province-wide standards of hospital care to be provided to Saskatchewan residents, and 2) it exercises overriding powers of approval over certain decisions made by local hospital boards.

The question is whether or not the current division of responsibility is appropriate.

E. Capital Financing

The Saskatchewan Health-Care Association has suggested to the Commission that due to the restrictions placed on the capital construction and financing processes, the government should fund 100% of the costs of approved projects. The restrictions on capital projects include approval by the provincial government of the project itself, the project plans and drawings, the associated financial plan and the contracts. The authority of local boards is further restricted by the applicaion of space and design standards which must be met in constructing or renovating a hospital. The S.H.A. states that these restrictions leave no room for local initiatives or for realistic local autonomy.

4. RECOMMENDATIONS AND CONCLUSIONS

A. Provincial Responsibility and Funding

- **The Commission has concluded that hospital services are primarily a provincial responsibility.**

- **The Commission recommends that the Saskatchewan Hospital Services Plan continue to fund 100% of the cost of services which it deems to be appropriate for each hospital, based on the expenditures which it deems to be sufficient to finance those services.**

- **The Commission recommends that the property tax not be used as a primary or major source of funding for hospitals.**

The need for province-wide rationalization of hospital services makes it apparent that the general levels and types of services must be defined by the provincial government. Along with this role should come the responsibility for providing the financing of the provincially defined services.

However, the provincial government should not be expected to "write a blank cheque" by agreeing to reimburse hospital boards for expenditures which exceed what should be sufficient to meet the provincially defined level of service.

B. Discretionary Local Services and Their Financing

- **The Commission recommends that hospital boards continue to have the authority to provide hospital services additional to those which are approved and funded by the provincial government.**

- **The Commission recommends that any additional services provided by hospital boards above the provincially defined level as well as expenditures above the approved level for the provincially defined level of services, continue to be financed from local sources.**

The Commission makes these recommendations for the following reasons:

- The arrangements enable local people to provide themselves with additional services which they desire, but which are not funded by the provincial government.

- The arrangements provide a "safety valve" in hospital funding by providing a means of resolving differences between what is desired locally and what the provincial government will support.

- The arrangements provide a means for compensating for inevitable weaknesses in the funding formulas when such formulas, from time to time, provide marginal inadequacies in funding for particular hospitals or situations.

- The arrangements serve as a moderating influence on local desires and expectations.
- The arrangements avoid the negative consequences of "last dollar" financing which tends to reward inefficient operations and penalize the efficient.

C. Local Levies and Governance

The Commission recommends:

That all municipalities be required to be a member of a union hospital district or a district which supports a Crown or religious/not-for-profit hospital.[2]

That local property tax levies by a hospital board be subject to the approval of a numerical majority of municipalities in the district, and by municipalities representing a majority of the assessment base.

That religious/not-for-profit hospitals have access to the local property tax base on the same basis as union hospitals. That is, they should have the right to requisition funds, but the requisition must be approved by a numerical majority of municipalities and by municipalities representing the majority of the assessment base in the district.

The reasons for these recommendations are:

- By requiring hospital boards to seek the approval of municipalities for all levies, hospital boards retain access to a local tax base and the levies would be subject to authorization by electorally accountable representatives.
- By requiring all municipalities to support a district, financial advantages arising from being outside a district will be eliminated.
- There would be no need to maintain the hospital revenue tax under these arrangements since all municipalities would belong to a hospital district.
- The current financial disadvantage faced by religious/not-for-profit hospitals, would be eliminated.

As an alternative to the foregoing recommendations, the Commission considered but rejected the possibility of requiring hospital boards to be elected, as a means of ensuring their accountability to the public.

The Commission also considered but rejected the option of increasing the hospital revenue tax as a means of encouraging municipalities to join union hospital districts and provide greater equity in the distribution of the local tax load for hospital services.

D. Capital Financing

The Commission recommends that the current practices of financing capital expenditures from a combination of provincial grants and local contributions be continued.

There are several arguments in favour of complete provincial funding of hospital capital, but the Commission concluded that some local input should continue, for the following main reasons:

- Local contributions reinforce a sense of ownership and pride in the local hospital and the services it provides.
- The local sense of ownership fostered by local contributions is responsible for high levels of volunteer community work in connection with the hospital, and a desire on the part of capable people in the community to serve on the hospital board.
- Use of local sources of revenue promotes a greater sense of accountability on the part of hospital board members and administrators.
- The requirement for local contributions serves to moderate community demands for facilities.

E. Relationship Among Hospitals and Other Health Programs

The Commission recommends that as an ultimate objective district health authorities be developed to plan and rationalize the health delivery system.

The Commission noted the following points:

- The health field is extremely segmented with little or no co-ordination at the local level.

---

[2] In the **Final Report** - main volume, a number of options are set out under which these arrangements can be achieved.

- The current system favours competition for funding among local health delivery agencies, rather than co-operation.
- There are few mechanisms at the local level to ensure patients are served by programs which meet the needs of patients and are cost effective.
- There are inadequate mechanisms for integrated health planning at the local level.

The Commission notes that the current district co-ordinating committees play a useful role in assigning residents to the appropriate health care service. However, the Commission believes there is a need for greater planning and rationalization of health services. The proposed district health authorities would have decision-making capabilities for the full range of health services in each region or district, in terms of allocating financial resources and ensuring patients receive the appropriate type and level of services. To achieve this ultimate goal, **the Commission further recommends that:**

- **There be renewed effort at working toward coterminality of boundaries of agencies delivering health programs; and**
- **District health planning bodies be established to focus on planning for health programs at the local level.**

F. Public Health Levy

- **The Commission recommends that the Public Health Levy be eliminated.**
- **In regard to the public health programs delivered by the cities of Saskatoon and Regina, the Commission recommends that the provincial government increase its grants to these two cities to levels which reflect the cost of the services delivered through the Community Health Service Branch of the Department of Health, to residents of other municipalities in the province.**

The provincial government has the mandate to provide preventative health services to all residents at the community level, although the cities of Regina and Saskatoon operate their own public health programs.

The cost of public health services is shared between the provincial government and the municipalities of the various health regions. The municipal share cannot exceed 50¢ per capita.

Regina and Saskatoon operate their public health services independent of the provincial program. The Province provides these cities with a grant of $3.35 per capita. In terms of gross dollars, public health grants to these two cities totalled $1.4 million, compared to their actual expenditures of $5.5 million.

The Commission believes:

- There is no sound basis for local financial input for the programs delivered by the Community Health Services Branch of the Department of Health. It is a provincial responsibility and there is little local input or decision-making involved.
- Regina and Saskatoon should have comparable provincial funding for comparable levels of services.

G. Saskatchewan Assistance Plan Levy

The Commission recommends that the Saskatchewan Assistance Plan Levy be discontinued.

The Saskatchewan Assistance Plan (S.A.P.) is an income supplement program for persons in need. The administration and program costs of the Saskatchewan Assistance Plan are funded primarily by the provincial government which receives contributions from the federal government and, to a limited degree, municipal governments.

In 1985-86 the required municipal contributions to the plan were $2.78 per capita for cities, $2.23 for towns and $1.11 for villages and rural municipalities.

The Commission recommends discontinuation of the Saskatchewan Assistance Plan levy because the plan is a provincial plan and as such it should be totally financed by the provincial government. Municipalities are not responsible for S.A.P. policies or program criteria and there is no apparent purpose served by the levy.

PART VI

LIBRARY GOVERNANCE AND FINANCING

1. BACKGROUND

The public library system in Saskatchewan consists of 2 large municipal libraries in Regina and Saskatoon, 7 regional libraries, and 6 local libraries in the Northern Administration District. The 7 regional libraries have 293 local branch libraries and other service mechanisms such as bookmobiles, book deposits and mail delivery of books.

In 1984, the public libraries (excluding the northern libraries) had expenditures of $18.6 million. Of this amount, regional libraries had expenditures of $7.3 million and the municipal libraries had expenditures of $11.4 million. Northern libraries had expenditures of $91,716.

2. REGIONAL LIBRARIES

Each of the 7 regional libraries is governed by a board consisting of persons appointed by the councils of participating municipalities and other local entities (including Indian Bands, Bible Colleges, a penetentiary, etc.). Each participating municipality is allowed to appoint one member to the board, and an additional member for each 5,000 population. This results in relatively large regional library boards, usually of more than 100 members. Therefore, at the annual meeting, the board elects a smaller executive committee to direct the operations of the regional library for the next year.

Municipal participation in a regional library is voluntary in that membership in a library region is by agreement signed by both the municipality and the regional library board.

The operations of a regional library are governed by an agreement between the library and the participating municipalities and other local entities. The agreements are generally for a three year term, with an automatic extension clause.

A municipality can withdraw from the regional library after giving two years notice.

The agreements between the regional library and its participating municipalities set out how the required local funding will be raised from each municipality. Each municipality's share is generally a per capita levy and the per capita amounts are different for villages, towns, cities, and rural municipalities. The "host" municipality of a local branch library, is also responsible for capital and facility maintenance costs in addition to the per capita levy requisitioned by the regional library.

The revenue of regional libraries is primarily from provincial grants and local levies. In 1984, provincial grants totalled $4.4 million (60.6% of total revenue) and local levies amounted to $2.7 million (36.7% of total revenue).

Municipal contributions in the form of local levies totalled $2.7 million in 1984, which is equivalent to an average of 1.5 mills on the equalized assessment of participating municipalities. On a per capita basis, the local levies averaged $4.54 per capita.

Other miscellaneous income such as interest income, fines, fees, etc. amounted to 2.7% of the total operating revenues.

3. MUNICIPAL LIBRARIES

In addition to providing library services to their residents, the Regina and Saskatoon libraries also function as resource centres for the regional library system.

The municipal libraries are the responsibility of the local city councils and are governed by boards appointed by the city councils.

Municipal library boards present their budgets to city council. City councils make the final decisions as to how much local funding the libraries should receive, but they have traditionally agreed to the library boards' requests.

The municipal libraries had total expenditures of $11.4 million in 1984. The municipal library budgets include the cost of capital and facility maintenance.

Grants provided to Regina and Saskatoon were originally intended not as a primary source of funding but, rather, to allow the libraries to develop additional collections and services designated as province-wide library resources. In 1984, the provincial grants to the 3 municipal libraries (including Lloydminster) represented 8.4% of the total operating revenues for these libraries.

Local levies for the municipal libraries in 1984 represented 89.0% of total revenues. On a per capita basis, the library levy averaged $31.08 or 11.3 mills on equalized assessment.

4. NORTHERN LIBRARIES

In 1984, there were 6 northern municipalities served by libraries. The town of Creighton was provided service through the Flin Flon Public Library. In Ile a la Crosse, Pelican Narrows, La Loche and Buffalo Narrows the public library was amalgamated with the school library. Only La Ronge had a separate public library.

The Saskatchewan Library provides these northern libraries with library materials and professional advisory support. Residents who live in northern communities without any form of library service may borrow materials directly from the Saskatchewan Library.

The northern libraries had expenditures of $91,716 in 1984. Provincial grants covered 17.1% of this total.

5. SASKATCHEWAN LIBRARY

The Saskatchewan Library is a provincial government body which has responsibility for central library services such as cataloguing and interprovincial library loans. Public libraries are independent from the Saskatchewan Library.

In the fiscal year 1984-85, the Saskatchewan Library had total expenditures of $7.6 million. 70.8% of these expenditures were used for grants to municipal and regional libraries. The remaining expenditures were for operational services.

6. PROVINCIAL GRANTS TO LIBRARIES

In 1984, provincial grants to libraries totalled $5.4 million of which 81.8% was provided to regional libraries and 18.2% to municipal libraries.

Provincial library grants currently provide a base amount equivalent to the same level of funding as provided to each library region in the previous year (on a per capita basis).Any incremental funding over the aggregate level required to provide each regional library with this base amount is distributed by means of a formula introduced in 1982.

The 1982 funding formula consists of three variables which have equal weighting in determining the distribution of the incremental funding:

- Population density. The effect of this factor is to compensate libraries with a lower than average population density.
- Financial support. The effect of this factor is to reward library regions whose local requisitions exceed the provincial norm and, thus, encourages the library to maximize its local levies.
- Service points. The number of service points per capita in the region is compared to the provincial average. The region which has a higher than average number of service points receives a credit.

7. ISSUES AND CONCERNS

A. Governance

Issues regarding the governance of libraries are as follows:

- Accountability of Library Boards

  Some have suggested that the members of the library board are not electorally accountable for the library requisition, even though the requisition is normally part of the municipal tax levy.
- Size of Regional Library Boards

  Some have suggested that the regional library boards are so large that individual representatives on the board have little opportunity for meaningful input into the decisions made by the board.
- Election of Regional Library Boards

  It has been suggested that regional library boards should be elected so that they would be electorally accountable for their requisitions from municipalities, and so that there could be a smaller (and presumably more manageable and effective) library board.
- Municipal Approval of Requisitions

  The Commission has recommended that requisitions by hospital boards be subject to the approval of a majority of the municipalities in the hospital district. The question arises as to whether this requirement should also be implemented for regional library requisitions.
- Voluntary Participation of Municipalities in Regional Libraries

  Some have suggested that all municipalities should be required to belong to a regional library.
- Assignment of Responsibility for Library Services to School Divisions

One suggestion is that school divisions provide the physical facilities that house local libraries, so as to make effective use of community facilities, and minimize overhead costs. Another suggestion is that the entire responsibility for public libraries be assigned to school divisions.

- Provincial/Local Roles

  The question arises as to whether the current respective roles of regional and municipal libraries and the Saskatchewan Library are appropriate.

B. Finance

Issues regarding the financing of libraries are as follows:

- Provincial/Local Share of Costs

  The question arises as to whether there is an appropriate sharing of the costs of libraries between library boards and the provincial government.

- Operating Grants Formula

  Questions arise as to the effectiveness of the formulas that are used to distribute provincial grants among individual library boards.

- User Fees

  Issues have arisen as to the effectiveness of user fees as a basis for raising revenues for libraries, and the proportion of costs that should be financed from this source.

- Capital Grants

  Some have suggested that the provincial government should provide capital grants to assist in the provision of physical facilities for local libraries.

8. CONCLUSIONS AND RECOMMENDATIONS ON LIBRARY GOVERNANCE

A. Governance

The Commission has concluded that the current governance arrangements for libraries in Saskatchewan are generally satisfactory and they are the best among the apparently available options. The Commission believes the current structure is a sound basis for building an even better system of libraries in the future.

Saskatchewan has a very good library system. The two largest cities have the population and resources necessary to operate their own libraries. Other areas of the province with lower concentrations of population are served through a system of co-operative effort. By joining together in a regional library system, municipalities are able to have library services that would not otherwise be possible.

B. Division of Responsibility

The Commission has concluded that the division of responsibilities among the Saskatchewan Library, the two large municipal libraries, the regional libraries, and the branch libraries is appropriate.

The Commission believes it is appropriate for the Saskatchewan Library to perform the roles of central cataloguing, providing linkages to library resources outside the Province, distributing provincial grants among the libraries, and providing a general leadership role in the co-ordination of library services in the province. It is also valuable to have the two large municipal libraries serve as resource centres for the regional library system. The regional libraries perform roles which individual branch libraries cannot efficiently provide.

C. Accountability

The Commission believes that the governance structure for libraries provides for less than ideal accountability of regional library boards to the taxpayers, but has concluded that the arrangements are the best of the options which are available.

The fact that regional library boards have the authority to requisition funds from municipalities without being held directly accountable to the public through an electoral process is not an ideal circumstance in a democratic society. However, certain arrangements compensate for this circumstance. The fact that budgets are voted on at an annual meeting of members of the board at which all representatives of municipalities are able to attend is important, because it provides an indirect form of accountability through those municipal representatives. The fact that individual municipalities are able to withdraw from the regional library system ensures that regional library boards must endeavour to reflect a general consensus among municipalities in regard to budgetary matters.

D. Election of Library Boards

The Commission recommends that the current method of selecting members of regional library boards be retained and that regional library boards not be chosen through elections.

The Commission also concluded that while the size of the regional library board is large and administratively cumbersome, representation from all participating municipalities is the best of the available options for the governance of the regional library system.

The election of regional library boards would have the advantage of boards being electorally accountable for requisitions, budgetary decisions in general, and the overall operation of the regional library system. However, the Commission believes that there are two negative consequences which would outweigh the advantages:

- For elections to be meaningful, there would have to be a smaller number of board members. While this would provide for a more administratively efficient board, it would also reduce the voice of individual municipalities on the board. Most board members would have to represent residents in several municipalities covering a wide geographic area.
- Elections would be an additional administrative and financial load.

E. Approval of Regional Library Budgets

The Commission recommends that regional library budgets continue to be approved at the annual meeting of board members, rather than requiring that they be formally approved by a majority of the participating municipalities.

The library regions are much larger than existing and proposed hospital districts. The Commission believes that it is desirable that those who vote on a budget be present at a meeting where all of the considerations going into the proposed budget can be explained. It is feasible and practical to have such a meeting for a hospital district, but the numbers of municipalities involved and the travelling distances involved would make it impractical for application to library regions. The Commission believes that the current approach of having representatives vote on the budget at the annual meeting is more practical.

The Commission also believes that municipalities can take measures to make effective use of their representative on the the regional library board. The ability to opt out of the region also provides a means for a municipality to exert its influence in regard to the financial affairs of the regional library.

F. Optional or Mandatory Participation

The Commission recommends that participation in regional libraries continue to be optional.

There would be some advantage to having complete participation of all municipalities in library regions. It would produce less financial uncertainty, facilitate long-term planning, and resolve current issues relating to the terms and conditions under which residents of non-participating municipalities receive library services.

However, the Commission believes that voluntary participation and the opting-out provision are significant features of the checks and balances operating within the current regional library system.They serve to compensate for the absence of direct electoral accountability of the regional library boards.

G. School Divisions

The Commission recommends that the responsibility for public libraries continue to be vested in library boards as opposed to assigning the responsibility to school divisions.

The Commission does not preclude the fact that in some specific circumstances it may be desirable for school boards to assume responsibility for library services or for public libraries to be housed in school facilities.

At the present time, the Commission believes that the arguments against combining public and school libraries outweigh the arguments in favour of the change.

9. CONCLUSIONS AND RECOMMENDATIONS ON LIBRARY FINANCING

A. Provincial/Local Share of Costs - Regional Libraries

The Commission has concluded that the current overall provincial/local share of the costs of operating regional libraries is acceptable.

The Commission has reached this conclusion on the basis of the following facts:

- Regional library levies have amounted to the equivalent of approximately 1.5 mills on the local tax base. This level of local contribution is modest and does not pose a hardship on any participating municipalities.
- On a per capita basis, total public library expenditures in Saskatchewan exceed the expenditures in both Manitoba and Alberta.
- The provincial government's share of regional library expenditures exceeds the share provided to regional libraries in either Alberta or Manitoba.
- Saskatchewan spends 0.24% of its provincial budget on library services compared with 0.11% in Alberta and 0.09% in Manitoba.

In its submissions to the Commission, the Saskatchewan Library Trustees Association stated that provincial grants should be increased to 70% of the previous year's total operating budget. The Commission believes that there is no rationale for 70% provincial funding, and the need for it is not apparent.

B. Provincial/Local Share of Costs - Municipal Libraries

The Commission has concluded that relative to regional libraries, the municipal libraries in Saskatoon and Regina receive insufficient funding from the provincial government, and recommends, as an interim measure, that they each receive the equivalent of approximately $3 per capita in additional grants.

In 1984, provincial grants to regional libraries amounted to the equivalent of $7.48 per capita, compared to $2.94 per capita for the municipal libraries.

In 1984, the local levies for the municipal libraries averaged 11.3 mills while the average levy for regional libraries was the equivalent of 1.5 mills.

The Commission believes that the equivalent of approximately $3 per capita in additional funding for each of the municipal libraries would be appropriate. This additional funding should be regarded as an interim level of funding pending the development of a new provincial grant formula.

C. Foundation Grant Formula

The Commission recommends that a foundation grant formula replace the current funding formulas for regional and municipal library services in Saskatchewan.

1) Critique of the Present Formula

The Commission identified several flaws in the present provincial grant formula and the allocation of provincial grant monies.

- Specific objectives do not exist for an allocation created by a series of formulas and methodologies.
- No methods have been developed and utilized for determining, on an objective basis, a reasonable level of expenditure for the various library boards. The absence of such data for library services means that a critical starting point for a sound funding formula is missing.
- There is an inappropriate incentive to increase the provincial library grant by spending at a higher level than other regional libraries.
- The service points factor does not distinguish between low service/ low cost options.

2) Proposal for a New Grant Formula

The Commission believes a foundation formula based on the equalization concept, with modifications to meet the needs of library services, should be adopted by the Saskatchewan Library.

The proposed library foundation grant would consist of two basic components:

i) Objectively determined operating expenditure requirement for each regional library.

ii) Objectively determined amounts which each regional library can be expected to raise from local sources.

The provincial grant to a library board would be the difference between the operating expenditures required and the amount which library boards can reasonably be expected to raise from local sources.

The formula could be applied to both regional libraries and municipal libraries.

A grandfathering provision should be implemented to ensure that no library board suffers an undue loss as a result of the change in formulas.

The advantages of the Commission's proposed library grant structures are:

- The recognized level of expenditures would contain region-specific factors affecting the costs of delivering library services.
- The formula would make it possible to achieve greater equality in levels of services and in the level of local input required to meet the required expenditures.
- The provincial grant would be unconditional and regional libraries would retain the authority to supplement the provincial grants with local revenues to the extent that they consider to be necessary or desirable.
- The provincial contribution to library services would be based on standard levels of service. It would not be an open-ended cost sharing arrangement which creates inappropriate incentives for regions to escalate their expenses but, instead, would be neutral in this respect.

D. User Fees

The Commission recommends that user fees not be relied upon as a major source of funding for libraries.

The Commission believes that the current practices of some libraries in Saskatchewan to charge for the use of certain services which are readily available from other sources in the community or which are only a peripheral responsibility of libraries should be continued.Modest charges for obtaining a library card should also be considered.

However, in accordance with the principle of universal access to services which are deemed to have broad societal benefits, the Commission believes that fees or user charges should be used sparingly as a source of funding for library services.

E. Capital Grants

The Commission recommends municipalities should continue to be responsible for the provision of capital facilities for libraries, and that there should be no conditional capital grants for libraries.

PART VII

FINANCIAL INTERRELATIONSHIPS

In this Part, the Commission deals only with those recommendations which have implications for revenues of local governments and payments by the provincial government.

A number of these recommendations, in turn, have interrelationships with one another in the sense that implementation of one recommendation may serve to accomplish all or part of the objectives behind another recommendation.They are also interrelated in the sense that different sequences for implementing them require different levels of resources to accomplish.

The Commission outlines these interrelationships because there are two main ways in which the Commission's recommendations may be considered:

- The recommendations may be considered individually; or
- Certain groups of recommendations may be considered as a package.

1. BENEFITS AND COSTS OF CERTAIN REFORMS

The recommendations and their respective benefits and costs, assuming each of the recommendations were implemented separately and without regard to interrelationships among them, amount to $88.6 million. Of this amount, rural property taxpayers would receive an estimated $30.8 million in benefits and urban property taxpayers would receive an estimated $57.8 million in benefits.

2. INTERRELATIONSHIPS

As noted earlier, implementating one recommendation may assist in achieving all or a part of the objectives of a different recommendation. For example, consider the following:

- The total benefits and costs of broadening the urban tax base and providing for a more equitable distribution of the urban tax load by paying grants-in-lieu of urban municipal taxes on property of the provincial government ($6.8 million) and by requiring universities and colleges to pay urban municipal property taxes ($4.8 million) is $11.6 million. At the same time, it is noted that an injection of $17.0 million in additional revenue is required in order to achieve full equalization in urban revenue sharing. If $5.4 million were added to the urban revenue sharing pool this, in combination with the recommendations to broaden the tax base and achieve a more equitable distribution of local taxes, would provide the $17.0 million of additional monies required to bring about full equalization.
- It does not matter which way the increase in revenue comes about, either through an expansion to the local tax base or through direct increases in the revenue sharing pool, in order for full equalization to be achieved without excessive losses in payments to individual municipalities.
- Taken individually, the 3 recommendations would have total benefits and costs of $28.6 million. Awareness of the interrelationships among recommendations, however, can result in the achievement of the same objectives behind the 3 recommendations with total benefits and costs of $17.0 million.

3. AN INTEGRATED PACKAGE

The overall benefits and costs associated with the integrated package of the Commission's recommendations, which takes into account the interrelationship among the recommendations, would total $60.1 million. This compares with a total of $88.6 million if the recommendations were all implemented separately.[1]

For current property taxpayers, that portion of the package which relates to operating (non-capital) revenues amounts to the equivalent of a reduction of about 20 mills in rural and urban municipalities, or about 9% on average in property taxes.

The Commission recommends that the integrated package be adopted for two main reasons:

- It achieves the objectives behind the recommendations in a more cost-effective way.

---

[1] See **Final Report** - main volume, for a more detailed discussion of the costs and benefits of the various recommendations considered separately and considered as a package.

- It achieves a reasonable balance in terms of overall benefits to property taxpayers in urban and rural municipalities.

4. PHASING AND SEQUENCE

There are a number of ways in which components of the Commission's recommendations could be phased in over a period of years if this proved to be desirable or necessary.

It should be noted that any decisions to limit the payment of grants-in-lieu of taxes or the removal of exemptions would correspondingly increase the amount required to bring about full equalization in the formula used to distribute monies to municipalities and school divisions. It would represent the loss or postponement of an opportunity to "kill two birds with one stone".

The choice of sequence of implementing the recommendations can have an impact on the level of resources necessary to implement the recommendations because, in some instances, additional revenues could not be used as an offset against the monies required to achieve other objectives.

5. OVERALL PRIORITIES

The Commission strongly recommends that the provincial government act to both strengthen the local tax base and provide equalization in the funding of school divisons and municipalities. However, if it came to a choice between implementing new policies on grants-in-lieu of taxes and exemptions versus implementing full equalization by the addition of monies to school grants and the municipal revenue sharing pools, the Commission would place a higher priority on equalization because it can compensate for variations in the local tax base.

6. SUMMARY

The recommendations summarized in this Part have the effect of bringing about a reduction in the level of property taxes for current property taxpayers, even though this was not the objective behind the recommendations.

The additional financial implications of the Commission's recommendations total $88.6 million if viewed independently and separately. However, an integrated package of recommendations totalling $60.1 million would achieve the same objectives while recognizing these financial interrelationships.

PART VIII

RELIANCE ON THE PROPERTY TAX AND PROVINCIAL FUNDING

1. BACKGROUND

The objectives behind the recommendations in this report and the three earlier reports were to improve fairness in the distribution of provincial monies among local governments, improve equity in the distribution of the tax load among property taxpayers and strengthen the local tax base, rather than to reduce rates of property taxation. Nevertheless, the effect of the Commission's recommendations is also to reduce property tax rates by about 9% and to reduce the net level of per capita property taxation below the national average.

Under the scenario envisaged in the Commission's recommendations, there would be greatly improved fairness in the distribution of the tax load and the overall level of property taxes would not be out-of-line.

By virtue of having addressed numerous issues relating to fairness in the distribution of the property tax load, many of the concerns that have led some to urge that property taxes be reduced, have been dealt with. The Commission does not believe that additional measures are required to reduce the overall level of property taxation. Nevertheless, the Commission recognizes that others may come to different conclusions. It is in this context that the Commission has examined a number of options which would achieve a sizeable reduction in the reliance on the property tax for certain types of local governments and, hence, a reduction in the overall reliance on property taxes.

2. OPTIONS FOR PROVINCIAL FUNDING OF SCHOOL DIVISIONS

The Commission examined a number of options for using provincial sources of revenue to reduce the current degree of reliance on the property tax through changes in the funding of education.

A. Concerns with Present Funding

To provide further background for the discussion of funding options, the Commission makes some observations about some concerns in regard to the current funding of school divisions.

1) Expenditures by School Divisions

Since 1971, school divisions have increased their expenditures at a higher rate than rural municipalities, but at a lower rate than urban municipalities. However, in the most recent 5 year period, the average rate of increase in school division expenditures has exceeded that of both urban and rural municipalities.

Because each type of local government has a different set of responsibilities, public expectations and requirements for services, and proportions of costs that are relatively fixed as opposed to being realistically subject to annual change, the differences among the rates of increase in expenditures cannot readily be used for making evaluative commentary.

2) Mill Rates

In 1985, the weighted average mill rate[1] was 111.7 mills for school divisions, 98.1 for urban municipalities, and 84.8 for rural municipalities. From 1971 to 1985, mill rates had increased by a compound annual rate of 7.1% for school divisions, 6.7% for urban municipalities, and 7.9% for rural municipalities.

While in the 1970's school divisions had mill rate increases which were higher than rural municipalities but lower than urban municipalities, in the 1980's increases in school mill rates were significantly higher than for either rural or urban municipalities.

The fact that the average school mill rate exceeds the average municipal mill rate and that the gap has been growing in recent years, serve to intensify the concerns of some local government officials about the extent to which school mill rates have risen.

---

[1] Based on equalized assessments.

3) Provincial Share of Costs

In 1976, provincial grants to school divisions accounted for 56.7% of total school division revenues but, by 1984, this had fallen by 8 percentage points. The decline in the provincial share of elementary and secondary education revenues in the past number of years has been one of the main causes of school mill rate increases exceeding the increases in municipal mill rates.

4) Surpluses

From time to time, it has been suggested that school divisions are accumulating surpluses in excess of those which are required and that, accordingly, an unnecessary burden has been created for the local property taxpayer.

School division surpluses are relatively small in relation to local taxes and grants-in-lieu of taxes, and in relation to annual expenditures. They are considerably smaller in both absolute and relative terms compared to urban and rural municipalities.

B. Options for Funding Levels

The school funding options considered in this section include:

- Maintaining the present level of funding to school divisions.
- Increasing provincial funding from its present average level of about 51% of school division revenues to higher levels, including the possibility of an average of 75% or 80%.
- Increase school grants in order to lower school mill rates to the average municipal level (s).

1) Maintenance of Current Level of Provincial Funding

If it were concluded that the current overall reliance on the property tax relative to other taxes is not excessive, then it might be argued that the current provincial share (51%) of education costs should be maintained.

The integrated package of recommendations set out by the Commission in Part VII would have the effect of permitting a reduction of an average of 8 mills in school mill rates and a reduction of an average of 12 mills in municipal mill rates. In relation to 1985 mill rates, this would leave the average mill rate for school divisions an average of 31 mills higher than for rural municipalities and 18 mills higher than for urban municipalities.

2) 75% Provincial Funding of Education

BACKGROUND

As noted earlier, upward pressures on mill rates and a decline over several years of the percentage of school division revenues accounted for by the provincial government, have led some to suggest that the provincial government should finance an average of 75% to 80% of the costs of elementary and secondary education.

In order for the provincial government's share of costs to rise to 75%, an increase in provincial grants of approximately $174 million would be required. If this were done, school mill rates could be reduced from their 1985 average level of approximately 112 mills to approximately 53 mills.[2]

In examining the 75% provincial funding option, the Commission assumes that it is a general target only. In individual years, the provincial government's share may be either higher or lower than 75%. Over the long term, however, the objective would be for the provincial government to provide approximately 75% of the funding.

IMPACT OF 75% PROVINCIAL FUNDING

Some noteworthy observations in regard to the higher levels of provincial grant are as follows:[3]

- Although the most wealthy school divisions would receive a greater increase in grants expressed in dollars per pupil, and in percentage terms, the less wealthy school divisions would receive grant increases equivalent to a greater number of mills than the wealthy school divisions.[4]

---

[2] These figures ignore the effects of the integrated package of recommendations described in Part VII. If it were assumed that the provincial government adopted the Commission's recommendation to increase the monies in the foundation grant formula by $23.5 million to implement full equalization, the incremental increase in grants to raise the provincial government's share of cost to 75% would be reduced from $174 million to $150.5 million.

[3] See **Final Report** — main volume for a complete discussion and analysis of the impact on all school divisions.

- If all school divisions were to spend at the revised level recognized in the formula (that is, the average budgeted level of expenditure), each school division would essentially be able to balance its budget at 55.5 mills under 75% provincial funding, regardless of its degree of wealth.

- Under the 75% option, the percentage of costs covered by provincial grants would be very high for some divisions. If it were assumed that the school divisions disadvantaged under the current recognized expenditure would choose to increase their expenditures up to or closer to the average, the provincial share of expenditure would not be nearly as high.

ARGUMENTS IN FAVOUR OF 75% PROVINCIAL FUNDING

Arguments advanced by those who favour the 75% provincial funding option include:

- Increases in provincial grants to school divisions of $174 million would permit a reduction in the total level of property taxes of approximately 27%.

- It would permit school divisions to levy smaller amounts of taxes on property than municipalities.

- Property taxes are less fair than other forms of taxation, and a reduction in property taxes in favour of other taxes would, by definition, introduce greater fairness into the overall taxation system.

- School divisions would continue to have access to the property tax and would continue to have the autonomy that comes with access to a local source of revenue.

- It would enable recognized expenditures in the foundation grant formula to be increased to the actual average level and thereby improve the achievement of equalization.[5]

- It would be a concrete step which would facilitate the eventual complete funding of education by the provincial government.

ARGUMENTS AGAINST 75% PROVINCIAL FUNDING

Arguments advanced by those who oppose 75% provincial funding of education include:

- The autonomy of school divisions would be impaired and school divisions would be more highly dependent on the provincial government for their funding.

- If the provincial government paid a higher percentage of education costs, they would be inclined to put more conditions on their funding. This would reduce local flexibility and the ability of school divisions to respond to local needs and desires.

- A reduction of $174 million in school property taxes or about 60 mills would give a large tax break to large corporations which have extensive property holdings.

- Because of the deductibility of property taxes in the calculation of taxable income under the federal income tax system, a reduction in property taxes would result in higher income taxes being paid, most of which would be a loss to the Saskatchewan economy.

- It would not eliminate the debate over use of the property tax base by school divisions because the municipal organizations have indicated that their objective is the total discontinuation of use of the property tax base by school divisions.

---

[4] In its various analyses of impacts of options on "wealthy" and "least wealthy" school divisions, the Commission uses only the rural school divisions organized under the former **The Larger School Units Act**, because this is the most homogeneous group of school divisions that can be used as a basis for comparisons.

[5] Full equalization could be achieved by adding approximately $23.5 million to school grants, considerably less than the $174 million in additional grants entailed in the 75% option.

- The provincial government would have to make massive increases in other taxes in order to finance the increase in grants, thereby putting those taxes out of line with other provinces.
- If relief from property taxation is required, there are methods available which would more selectively direct the relief to those that require the relief.

SUB-OPTION

Another sub-option for achieving 75% provincial funding of education is for the provincial government to increase its grants to school divisions each year by an amount roughly equivalent to the increase in school division expenditures in that year. In this way, property taxes for education would not be reduced on an absolute basis, but over a period of years, they would cover a decreasing portion of total education revenue, until the point was reached where provincial grants covered 75% of school division revenues.

3) Increase School Grants to Lower School Mill Rates to Average Municipal Level (s)

The cost in additional grants to enable school divisions to reduce their average mill rates to the 1985 overall urban/rural municipal average of 93.3 mills would be $53.7 million and this would increase the provincial government's share of total school revenue to approximately 58%.

3. RELIANCE ON PROPERTY TAXES AND PROVINCIAL FUNDING OF MUNICIPALITIES

Considering the fact that school divisions, hospital boards and library boards receive considerably higher percentages of provincial funding compared to municipalities, suggests to some that municipalities should receive a substantial increase in provincial funding. There are basically three potential reasons for an increase in provincial funding for municipalities:

- If current provincial funding in combination with local sources of revenue were not sufficient to permit municipalities to fulfil their legislated mandates.

  The Commission believes that, on an overall basis, municipalities do have sufficient resources at their disposal to adequately meet their responsibilities.

- If current provincial funding is insufficient to permit a proper amount of equalization in services and local tax effort.

  The Commission concluded earlier that current provincial funding was inadequate to bring about an acceptable amount of equalization. The Commission recommended some adjustments to the formulas used to distribute provincial transfers among local governments and recommended infusion of additional funds to achieve full equalization.

- If the current level of reliance on the property tax were excessive.

  The Commission has concluded that, currently, some individuals pay too much in property taxes, and that some local governments are required to tax property too heavily. However, the Commission has made numerous recommendations to correct these inequities and, on an overall basis, the property tax is not being relied upon excessively.

There has been relatively little concern expressed or issues raised in regard to the level of provincial funding for municipalities. The discussions in this connection have tended to center around school divisions: whether or not they should be using the property tax and what portion of costs should be borne by the provincial government. In short, the level of provincial funding for municipalities has not been a focal point for discussions on the level of reliance on the property tax.

Some have suggested that provincial funding for municipalities should be reduced, that the monies be given instead to school divisions, and that other measures also be taken to provide complete provincial funding of education. The Commission has two major concerns with this possibility:

- Denial of access to the property tax would have negative implications of major proportions for school divisions.
- There are major inequities in the distribution of provincial payments among municipalities. Additions to the rural and urban revenue sharing pools are among the measures required to bring about equality in the funding of municipalities. Reductions in provincial funding, on the other hand, would only serve to exacerbate the effects of the present inadequate level of equalization.

4. RELIANCE ON PROPERTY TAXES AND PROVINCIAL FUNDING OF HOSPITAL BOARDS

In view of the relatively small amount of property taxes for hospital purposes ($11.9 million), it is obvious that hospital funding is not a potential area for achieving a significant impact on lower levels of reliance on the property tax.

5. RELIANCE ON PROPERTY TAXES AND PROVINCIAL FUNDING OF LIBRARY BOARDS

Library boards account for approximately $13 million in property taxes, which approximates only about 2% of the total property tax levy in the province.

The Commission does not believe that the funding of libraries is a major focal point for examining the broad issue of the degree of utilization of the property tax.

6. REBATES AND RELIANCE ON THE PROPERTY TAX

Other measures have been proposed to address the issue of the level of reliance on the property tax through indirect means.Instead of enabling local governments to reduce the level of property taxes, various measures have been in existence or have been proposed to provide rebates which have the effect of lowering the impact of property taxes indirectly.

A. Income-Based Property Tax Credit

In its January, 1985 **Interim Report,** (pp. 37 to 41), and again in its September, 1985 report on **Alternative Local Sources of Revenue and Utilization of the Property Tax Base,** (p. 29), the Commission described a system whereby those with low or no incomes could receive a rebate of all or a portion of their property taxes through the income tax system. The lower the income, the higher the rebate. The higher the income, the lower the rebate.

B. Removal of School Property Tax From Farms, Homes, and Small Business, by Rebate

One proposal is to leave direct grants to school divisions at their present level, but to reduce or eliminate the school property tax for selected types of property through a system of rebates equal to the average school mill rate on the eligible assessment.

Those who favour this type of approach use the following arguments:

- It avoids the reduction of taxes for the owners of larger amounts of property who can, presumably, afford to pay their property taxes.
- With a rebate program it is possible to be more selective in regard to the amounts and recipients of relief from property taxation than through across-the-board mill rate reductions.
- It has the effect of permitting the complete elimination of the school property tax in regard to amounts of property within the eligible limits, but preserves the autonomy of school divisions by allowing them to continue to levy local property taxes.
- Based on the experience of the previous property tax rebate programs, it could be administered for less than 1% of the value of the rebates.

Those who are against this type of program use the following arguments:

- Many who receive a rebate would be quite able to afford to continue to pay their property taxes.
- Those with amounts of property in excess of the eligible levels are not necessarily able to pay their property taxes without hardship.
- To qualify for a rebate, taxes must first be paid. This may be a hardship for some.
- For those who face difficulties in paying their property taxes, a dollar of municipal property tax is no less difficult to pay as a dollar of school tax.
- Because of the taxation of rebates, the payment of rebates by the provincial government would have the effect of causing income tax payments to the federal government to increase, thereby draining monies from the provincial economy.
- It implicitly assumes that school divisions are not legitimate users of the property tax base and that the only inequities associated with the property tax are those that relate to school property taxes. These assumptions are false.

C. General Rebate Program

Another option is to have a rebate program tied to assessment levels and mill rates, as under the previous option, but which is aimed at reducing property taxes in general, rather than only the education portion of property taxation.

Those who support this option would use the following arguments:

- There is unfairness in both school and municipal property taxes, as well as other property tax levies. A rebate program aimed at relieving all local property taxes reflects this fact.
- The option avoids the implicit argument that any one type of local government has either more or less legitimacy in using the property tax base than other types of local government.

Other arguments in favour and against this option are similar to those that are raised in regard to the rebate program aimed specifically at school property taxes.

7. ALTERNATIVE PROVINCIAL SOURCES OF REVENUE

A broad base of provincial revenue sources is now in use to finance fiscal transfers from the provincial government to local governments. The question arises as to whether there would be merit to increasing the reliance on these taxes, or implementing new provincial taxes, for use in increasing provincial transfers to local governments to permit less reliance on the property tax.

The Commission is limiting its commentary on alternative provincial sources of revenue to the question of whether there would be some potential for obtaining additional revenues from particular sources from the standpoint of equity and an interprovincial comparison of tax rates.

A. Tax on Motor Vehicle Fuels

The Commission believes there is potential for use of the motor vehicle fuel tax base to assist in the funding of local governments. All provinces in Canada, with the exception of Saskatchewan and Alberta, have a tax of approximately 20% of the retail price of fuels. A sales tax on gasoline and diesel fuel of 1¢ per liter would raise approximately $20 million in revenue.

The fuel tax could be considered as a dedicated tax to finance the proposed urban and rural unconditional capital grant programs. A tax of about 1.2¢ per liter would fund the 2 programs. Much of the capital expenditures of municipalities is transportation related, and the tax could be looked upon as a user charge for transportation infrastructure. Those who use the transportation infrastructure help to pay for the cost of that infrastructure through the taxes they pay on their motor vehicle fuels. The Commission indicated in an earlier report,[6] and in Part IV of this report, that it would be appropriate to place greater reliance on user charges in certain circumstances.

Use of a dedicated tax to finance the capital funds would have the advantage of providing a means by which the capital payments automatically increase from year to year, as the consumption of fuels increases.

The majority (64%) of the operating expenditures of rural municipalities and a substantial portion (15%) of the operating expenditures of urban municipalities are on transportation. Accordingly, in keeping with the notion of greater reliance on user charges, the fuel tax could be looked upon as a potential source for financing the revenue sharing programs.

B. The Retail Sales Tax

The 5% retail sales tax in Saskatchewan is lower than in any other province with the exception of Alberta which has no retail sales tax. If it were considered desirable to reduce the relative reliance on the property tax, the sales tax would be a possible area of additional provincial taxation which could be used to fund increases in provincial-local government fiscal transfers.

C. The Personal Income Tax

The personal income tax rate in Saskatchewan is 50.0% of federal basic tax, plus a 1% flat tax on what is defined as "net income". Because the flat tax is unique to Saskatchewan, it is somewhat difficult to make direct comparisons between Saskatchewan and other provinces in regard to the overall rate of taxation of income. If the net amount of revenue generated from the flat tax were generated from the regular provincial income tax structure, Saskatchewan would have a personal income tax rate of 55.7% of federal basic tax.

---

[6] **Alternative Local Sources of Revenue and Utilization of the Property Tax,** Interim Report of the Local Government Finance Commission, September, 1985, p. 26.

This would suggest that income is currently being taxed substantially more heavily in Saskatchewan than in any other province west of Quebec.[7]

The personal income tax based on progressive rates is generally regarded as the most fair form of taxation, particularly if care is taken to ensure that the system does not have excessive deductions and "loopholes". However, this does not mean that it would be appropriate to eliminate all other taxes and rely exclusively on the one tax that is thought to be most fair. Excessive reliance on the income tax system would create disincentives for saving, investment, and entrepreneurship, and would generally dampen the enthusiasm of individuals in society to increase their incomes.[8]

Each 1 percentage point of net income yields about $110 million in revenues on a gross basis, and $75.3 million on a net basis, after taking into account the increase in the low income tax reduction and the decrease in the general tax rate from 51% to 50% for 1986. On the other hand, each 1 percentage point of federal basic tax yields approximately $13.2 million in 1986. In other words, there are substantial revenues associated with a flat tax.

The fact that taxes on personal income in Saskatchewan are already relatively high would suggest to some that this is not a desirable potential source from which to finance additional payments to local governments.

There is currently much discussion about reforms to the personal income tax system in terms of:

- Broadening the tax base and rationalizing exemptions and deductions from income;
- Reducing the marginal rates of taxation and strengthening work incentives; and
- Simplifying the rules under which taxable income is determined.

The Commission believes that in the context of reforms which may take place in the personal income tax system, there may be greater potential for the use of the source of revenue for the financing of additional payments to local governments.

D. Corporate Income Tax

No other province taxes corporate income for small business at a rate which exceeds Saskatchewan's 10%. Saskatchewan's 17% general corporate income tax rate is the highest in Canada. Each 1 percentage point of taxable income for small business yields $2.6 million, whereas each 1 percentage point under the general category raises approximately $7.1 million in 1986.

Considering the high rates of corporate income tax in Saskatchewan relative to other provinces and the limited amounts which are raised from those sources, the Commission does not view corporate income taxes as a probable source of substantial additional provincial revenue for financing local governments.

E. Resource Revenues

It is projected that Saskatchewan will obtain revenues of approximately $660 million in 1986-87 from resource revenues.

General economic and market conditions might permit additional revenues to be obtained from these sources, but their volatility and regulatory and development factors makes them of questionable usefulness as a basis upon which to assist in the funding of local governments.

8. RURAL/URBAN BALANCE

A. Background

One of the major issues that was raised during the Commission's review of the financing of local governments is the rural/urban balance in taxation, or the amount of property taxes paid by taxpayers in rural municipalities, as opposed to those in urban municipalities. While the issue has sometimes been expressed in terms of tax levels in urban and rural municipalities, it would be more accurately described as an issue involving the amount of property taxation paid by farmers as opposed to the amount of property taxation paid by non-farmers.

---

[7] Each province has its own system of special tax credits, deductions and surcharges which mean that the tax impact varies depending on the application of these factors. For example, although Saskatchewan has a relatively high overall rate of personal income tax, its rates for persons on low incomes are among the lowest in Canada.

[8] Some argue that current levels of income tax are already creating an "underground, barter" economy designed to escape the effects of the income tax system. Higher levels of personal income tax would intensify the encouragement of the "underground" economy.

There are two types of services in respect of which the issue arises:

- Municipal services.
- Services for which there is property taxation across a number of urban and rural municipal boundaries, and for which a common mill rate is levied on the equalized assessment of both urban and rural properties.

B. Overall Per Capita Rates of Taxation

The per capita assessment level is substantially higher in rural municipalities than in urban municipalities. As a result, if taxed at the same mill rate (which in fact takes place for all municipalities within a school division or a union hospital district), taxpayers in rural municipalities would pay on average from 43.7% to 124.6% more per capita than taxpayers in urban centres.

C. Specific Farm/Non-Farm Comparisons

1) Farm/Business Comparisons

Another way of analyzing the rural/urban balance is to compare the assessments of farms of various sizes and various soil productivity ratings, with the assessment of urban businesses.

An average-sized farm of 6 quarter sections and with an average assessment of $5,500 per quarter would have a total assessment of $33,000.

The Commission assembled statistics for two towns assuming that each of the owners of a business owns a modest three bedroom bungalow.

- For the town of approximately 560 population, 25 of the 33 business owners would have total home and business assessments less than the $33,000 for the average farm.

  The median total assessment of the businessman would be $21,735, about 66% of the assessment of the average farm.

- For the town of approximately 1,200 population, 40 of the 60 business owners would have total home and business assessments less than the $33,000 for the average farm.

  The median total assessment of the businessman would be $21,860, about 66% of the assessment on the average farm.

2) Farm/Residential Assessment

Another way of analyzing the rural/urban balance is to compare the assessment of farms to residences, assuming the residence is owned and occupied by a salaried or professional person who does not own or rent a business and, therefore, for whom the taxes paid on the residence are the only property tax paid.

The assessment of the average farm ranges between 3 times and 5 times the assessment of a modest 3 bedroom bungalow with a fully serviced lot in various sizes of urban municipalities.

The average assessment of apartments on an above-average high-rise apartment in the City of Regina amounts to about one-quarter of the assessment of the average farm.

D. Other Considerations

Other considerations which should be taken into account in evaluating relative tax loads are:

- The Total Tax System

  One tax should not be looked at in isolation from other forms of taxation.

- Income Tax Deductibility

  Businesses and farmers can deduct their property taxes from income in calculating their taxable income for income tax purposes while wage earners cannot deduct their taxes.

- Ability to Pass on Taxes

  While some businesses can pass on property taxes to their customers other businesses and farmers cannot pass on these costs.

- Ability to Influence Tax Levels

  Some businesses can move more readily to locations with lower tax levels, however, farmers and other businesses cannot change locations.

- Value of Property

  Since property taxes are a tax on one form of wealth, namely property, the market value of property should be considered.

- Interpretation of Per Capita Amounts

  Per capita comparisons can be misleading and must be supplemented with other analysis.

E. Summary

The Commission believes that because of the relatively large portions of the local tax load borne by businessmen and farmers, the weightings attached to business and farmland assessment warrant particular attention by the Saskatchewan Assessment Management Agency. The weightings determine how the tax load is distributed among different categories of assessment.

9. SUMMARY AND CONCLUSION

Under the scenario envisaged in the recommendations of the Commission, there would be greatly improved fairness in the distribution of the property tax load. By virtue of having addressed numerous issues relating to fairness in the distribution of the property tax load, many of the concerns that have led some to believe that there should be a general reduction in property taxes, have been dealt with.

Although the Commission does not believe that additional measures are required to address the gross or the net level of property taxation, the Commission has examined several options which would have a major impact on the reliance on property taxation by different local governments.

The Commission does not support 75% provincial funding of education, mainly because it would not address the more fundamental question of equity and fairness in property taxation, it would impact negatively on the autonomy of school divisions, and it would not, in itself, achieve consensus in regard to utilization of the property tax base by school divisions. The Commission reached essentially the same conclusions in regard to increasing grants to allow school divisions to reduce their mill rates to the average municipal rates as it did in regard to 75% provincial funding, although the Commission does not believe that provincial funding in the 60% range would threaten the autonomy of school divisions.

If the provincial government were to decide to fund 75% of expenditures by school divisions, the Commission recommends that it be done over a period of years, rather than implemented all at once. The provincial government should increase grants to school divisions each year, by an amount roughly equal to the increase in expenditures by school divisions. In this way, school property taxes would not decline in absolute amounts, but they would decline in relative terms. This would enable school divisions and the provincial government to adjust to higher levels of provincial funding over a period of years, would prevent reductions in property taxes paid by owners of large amounts of property, and would prevent a leakage of monies from the Saskatchewan economy, through the income tax system.

The Commission believes that an income-related property tax credit is preferable to a non-income related property tax rebate, because it targets the relief to those who need them most, and it is a more cost effective means of achieving property tax relief.

The Commission notes, however, that a rebate scheme with a system of limits and ceilings is a less costly mechanism for achieving reductions in net property taxes than across-the-board reductions achieved through increases in provincial payments to local governments.

The Commission does not support reducing provincial transfers to municipalities as a means of financing increases in funding for school divisions.

There are serious inequities in the current system of payments to municipalities because of the low level of equalization that is achieved. Increases in the municipal revenue sharing pools are required in order to bring about full equalization in an acceptable way. Reductions in funding to municipalities would only serve to exacerbate the current inadequacies in equalization.

The Commission also noted that business assessment and farmland assessment were bearing relatively large portions of the local tax load, and that the Saskatchewan Assessment Management Agency should pay particular attention to these categories of assessment, as it exercises its responsibilities in determining the incidence of taxation on the different categories.

The Commission examined a number of potential provincial sources of revenue which could be used to finance the recommendations proposed by the Commission or to bring about further payments to local governments over and above those proposed by the Commission. **The Commission believes there is potential for use of the motor vehicle fuel tax base as a means of financing the proposed unconditional urban and rural capital programs, or to assist in the financing of revenue sharing programs. The Commission also believes there is potential for the use of the retail sales tax and, under appropriate circumstances, for the use of personal income taxes, in the financing of payments to local governments.**

PART IX

OTHER MATTERS

CHAPTER ONE

STRUCTURE OF LOCAL GOVERNMENT AND DIVISION OF RESPONSIBILITIES

Because of the direct and indirect implications for the financing of local government, the Commission makes some observations regarding the structure of local governments.

The Commission made some recommendations in Part V in regard to revised governance structure for the delivery of health services in Saskatchewan, largely to improve the planning and co-ordination of services which are currently governed by separate agencies. The Commission has also proposed certain changes in the responsibilities of local government, including the responsibility for policy development and management of the assessment function, the elimination of municipal responsibility for the financing of social assistance, and the elimination of municipal financial responsibility for basic public health services. Apart from these proposed changes, the Commission has made no other proposals affecting either the structure of local governments or the division of responsibilities between them and the provincial government

The Commission believes, however, that it would be highly appropriate for the provincial government to initiate a review of the structure of local government. This review should not be undertaken with the thought that current structures have failed. Instead, the review should be undertaken with a view to building on the strengths of the past and investigating opportunities for even more effective local government for the future.

Some of the questions and issues that have led the Commission to conclude that a review of governance structures is timely and appropriate are:

- Size of Rural Municipalities

  Communication between the electorate and their representatives is important for accountable and responsive local governments. The question is whether or not the current size of rural municipalities is necessary to maintain the desired level of communications, or whether modern communication and transportation make it possible to maintain a desired level of responsiveness and accountability with larger municipalities.

  The question arises as to whether larger rural municipalities would facilitate their ability to better take advantage of the opportunities for additional economic development as pointed out in the Report of the Task Force on Rural Development.

  Rail lines are being abandoned and greater centralization of grain delivery points is taking place, thereby putting additional demands on the municipal road system. The question arises as to whether larger municipalities would be in a better position to plan, co-ordinate and finance the construction and maintenance of the necessary road system to accommodate the new truck traffic.

  In short, some would argue that larger rural municipalities would be more effective. On the other hand, others would argue that it is best to maintain the current structure.

- Relationship Among Rural and Small Urban Municipalities

  The lines that distinguished the interests of the residents of rural and urban municipalities have become blurred over the years. Many people who earn all or a portion of their incomes in an urban municipality live in a rural municipality and vice versa. Urban residents use the rural municipal road system. Rural residents use the cultural and recreational facilities of the urban municipality. These and other phenomena lead some to believe that there would be merit in integrating the administration of the affairs of rural municipalities and urban municipalities, particularly the smaller villages and towns.

- Omnibus Local Government Structure

  Some believe that local governance would be improved if all local government functions such as municipal services, education, hospitals, libraries, and perhaps others, were under a single local government, rather than being divided among separate local governments. Others believe the current functional division is preferable.

- Administrative Skills

  Some believe that larger units of administration, either in terms of geographic area or functions, would enable the engagement of staff with a more comprehensive mix of skills and specialization, thereby improving the efficiency or effectiveness of local governments. Others believe that larger local governments would serve to increase the complexity and cost of local government.

- Coterminous Boundaries

  Some believe that local governments would be more effective if the boundaries of different types of local governments were more coterminous, thereby facilitating co-operation and co-ordination among different local governments.

- Structure of Provincial Government

  There may be need for a different structure of provincial government departments and agencies, either to deal with existing local government structures, or with new structures that may arise from a review of this area.

The Commission did not discuss these and other questions relating to the structure at any length, nor did it come to conclusions in this regard, essentially because they were beyond its mandate. However, the Commission believes that a review of these matters by another group would be highly appropriate. In short:

The Commission recommends that the provincial government establish a mechanism for an indepth review of issues and questions relating to the structure of local governments.

CHAPTER TWO

NORTHERN SASKATCHEWAN

The purpose of this chapter is to provide a brief overview of local government in Northern Saskatchewan and to describe the limitations faced by the Commission in its review of northern local government financial issues.

1. BACKGROUND

In 1983, **The Northern Municipalities Act** was passed and under its provisions, the current system of municipal government in the north was created. As of January 1, 1986, there are 2 towns, 10 northern villages and 14 northern hamlets. In addition, a number of northern settlements are under the administrative direction and control of the provincial government.

Northern municipalities are funded in the same general way as southern municipalities. Their two main sources of revenue are local taxation and transfer payments from the provincial government.

There are four school divisions in Northern Saskatchewan, and they operate under the provisions of **The Education Act,** like their southern counterparts. Their main sources of revenue are local taxation, tuition fees from the federal government on behalf of treaty Indians, and provincial government transfer payments.

Because of their relatively small local tax base, the northern municipalities and school divisions rely more heavily on provincial transfer payments than do most of their southern counterparts.

There are four hospitals in Northern Saskatchewan which are located in Uranium City, La Ronge, La Loche, and Ile a la Crosse. The hospitals are funded by S.H.S.P. on the same basis as other hospitals in the province, although S.H.S.P. does recognize the additional supply costs due to higher transportation costs.

Only La Ronge has a separate public library. Five other northern municipalities are served by libraries which are amalgamated with school libraries in those centres. The Saskatchewan library provides library materials and advisory services to the five northern libraries. Residents of communities without any library service may borrow materials directly from the Saskatchewan Library.

2. ISSUES

There are a number of issues that are either specific to Northern Saskatchewan or which impact more particularly on that area of the province.

- Limited Local Tax Base

  Northern municipalities with populations of 500 or more have roughly half the assessment base on a per capita basis in comparison with their southern counterparts of the same population. In the smaller communities, the per capita assessment base averages only about 20% of their southern counterparts of similar size.

- Unemployment

  The high levels of unemployment are an extremely serious issue for northern residents and it has implications for their local governments. Northern local governments have modest local tax bases to begin with, but the low levels of employment mean there is less assurance that much of the taxation which is levied can be collected.

- Role of Municipal Government

  The serious social problems, many of which arise from unemployment, cause many northern municipal governments to perceive their roles as extending well beyond the roles played by most southern municipalities. It became apparent to the Commission during its brief visit to the north that northern municipalities see themselves as the main vehicle through which economic development is initiated and controlled in the interests of the local people.

- Higher Costs in the North

  Costs are higher in northern centres, due largely to their vast distances from major population centres and the consequent costs of transportation. For certain communities, much of the supplies must be flown in.

3. CONCLUSIONS

The Commission believes that in regard to elementary and secondary education, the role and mandate of the governing authorities is reasonably clear, there are sound funding mechanisms in place for both operating and capital expenditures, and the formulas fully take into account and compensate for the limited tax base and higher costs in the North.

The Commission believes that the foundation concept should be applied in the financing of libraries throughout the province, including the north. The process of developing the foundation formula will ensure that issues relating to the types and levels of services and the specific costs of delivering those services in the north will be addressed.

The current limited role of local governance and funding of hospital services in the north would seem to be an inevitable consequence of circumstances.

The question of the boundaries of municipalities, the role of municipalities in economic development, the related issue of local taxation of resource revenues, and role of municipalities in dealing with the acute social problems of the north are not within the terms of reference of the Commission. Even if there had been some "stretching" of the boundaries of the Commission's mandate, to adequately address those issues would have been beyond the resources of the Commission and its expertise.

An overall evaluation of the municipal sector, particularly with regard to their role, was far more difficult for the Commission. Whether municipal governments should have a broader role in being the engines of economic growth and development in the north is a serious question. How municipalities with a broader role would be financed and, specifically, whether they should have a form of access to royalties or other revenues from resource development are also important questions.

The Commission originally planned to address at least some of these broader questions but, subsequently, came to the conclusion that they were either beyond its mandate or outside its competency to adequately address. A mechanism, other than this particular Commission, with greater familiarity with northern issues, representation from northern residents, and the ability to concentrate on unique northern issues, free of the burdens of having to review the many other issues of major importance faced by this Commission, would be appropriate.

The Commission was deeply impressed by the seriousness of economic and social conditions of the North, and believes that processes and mechanisms other than this particular Commission are required to address them.

CHAPTER THREE

VARIABLE MILL RATES

There are two main mechanisms through which general tax incidence (the allocation of tax load among different categories of property) is controlled. One is through the assessment system, and the other is through the use of variable mill rates.

1. CONTROLLING INCIDENCE THROUGH THE ASSESSMENT SYSTEM

There are three main types of decisions which are made leading up to the appraisal of individual properties:

- Classification of Property

  One of the reasons property is placed into different classifications is to facilitate the allocation of the tax load among the different categories of property.

- Basis for Appraisals

  A different basis of appraisals is often used for different types of property.

- Appraised v.s. Assessed Value

  The values that are placed on the assessment rolls may be different from the appraised values. Under the last general reassessment program, for example, urban land was assessed at 100% of appraised value, farmland at 60%, and improvements at 50%. These decisions affect the distribution of the tax load among the different categories of property.

The classification of properties and decisions on the percentage of appraised value used in arriving at assessed value are the primary means by which the incidence of property taxation is controlled in Saskatchewan.

2. CONTROLLING INCIDENCE THROUGH VARIABLE MILL RATES

The capacity to have some form of variable or split mill rates exists in 7 provinces. Only Manitoba and Saskatchewan do not permit any variation of mill rates between different categories of assessment within a municipality, school division, or other local taxing authority.

In Saskatchewan, the statutes require that the taxing authorities apply the same mill rate to all classifications of property. Thus, the only general means of controlling tax incidence currently available is through the assessment system.

3. OBSERVATIONS AND CONCLUSIONS

The Commission concluded in an earlier chapter that the same system of business taxation should apply to all municipalities throughout Saskatchewan. The main concern of the Commission was to avoid having municipalities engage in tax competition and the creation of competitive advantages and disadvantages among businesses in different communities through property taxation. The same potential problem would exist if municipalities were given the authority to set different mill rates for different classifications of property.

Quite apart from the question of intermunicipal tax competition, the Commission is concerned about the controversies and contentions that could arise within individual municipalities over the question of different tax rates and tax loads.

The Commission is not suggesting that local governments have no voice in the question of tax incidence. The Government of Saskatchewan has proceeded with the recommendation of the Commission to establish a Saskatchewan Assessment Management Agency which has a majority of local government representatives on its governing board of directors. Through the representatives they have on the board of directors and, through the consultative processes utilized by the Agency, local governments will now have input into decisions on tax incidence which they did not have until the present.

In short, the Commission recommends that municipalities continue to be required to levy uniform mill rates on different classifications of assessment and that municipalities not be given the authority to vary the incidence of taxation through the use of variable mill rates.

CHAPTER FOUR

FINANCIAL MANAGEMENT

1. STANDARDIZED FINANCIAL ACCOUNTING

Standardized accounting usually is based on a standard chart of accounts which, although it classifies similar expenditures in a similar manner, allows an individual local government to establish accounts in the level of detail it requires, depending on the size and complexity of the local government itself.

Currently, the cities still use their own individual classifications of accounts. However, all other urban and all rural municipalities have adopted a common accounting system. Both school divisions and hospital boards have common accounting systems.

Those who support standardized accounting suggest that it has several merits:

- Familiarity with forms and procedures will save staff training costs and should result in fewer errors when staff move from one local government to another.
- The introduction of common computerized systems is facilitated, thereby improving efficiency among local governments.
- Independent accounting firms would be able to perform more precise audits at lower costs.

2. STANDARDIZED FINANCIAL REPORTING

Standardized financial reporting stops short of standardized accounting and permits individual centres to adopt or retain different accounting systems, but places the onus on each local government to report its financial information to the provincial authorities according to a standardized format.

All municipal governments, except cities, currently use a common financial reporting format. Cities submit their financial information according to their individual accounting systems and reporting formats. School divisions and hospitals each use a common financial reporting format.

Implementation of standardized financial reporting would facilitate intermunicipal comparisons and analysis of expenditures and revenues.

Development of a standardized financial reporting system without the development of a corresponding standardized accounting system would entail some additional costs to the cities to transpose figures from different accounting systems to a standard format. This annual exercise may also introduce errors and inconsistencies in the final product.

3. FISCAL YEARS

The urban, rural and northern municipal and school fiscal years are the same as the calendar year, January to December. Some have suggested that it would be appropriate and administration of local governments could be enhanced by changing to an April to March fiscal year; the same fiscal year as the provincial government.

Hospitals changed from a January to December fiscal year to an April to March fiscal year in 1977-78, as part of a national exercise. To accomplish this conversion, hospitals were given and operated on a 15 month budget in the 1977-78 period.

Those who support converting municipal and school fiscal years suggest that the following benefits would be realized:

— Local councils and school boards would know the provincial transfer payments prior to the start of the fiscal year.

— Certain costs such as snow removal can be more appropriately allocated to a budget year when the entire season falls within the fiscal year.

Converting to an April to March fiscal year would require a change in the timing of tax requests from the property owners and, more importantly, the establishment of a mill rate to generate sufficient revenues to cover a 15 month period would be required in the transition year. This may be publicly unpopular. Some have suggested that it would not be appropriate for local governments in Saskatchewan to proceed with conversion of the fiscal year, while municipalities and schools in other provinces follow the calendar year.

4. LONG-TERM PLANNING

Long-term capital planning assists local governments in identifying, prioritizing, and planning the necessary financial arrangements for various projects.

Preparation of an annual five year capital plan is a legal requirement for urban municipalities under **The Urban Municipality Act, 1984.** Five year capital plans are also required to be submitted if a municipality applies for a grant from the Provincial Capital Fund. School divisions are also required to submit a three year capital plan to the Department of Education.

Long-term capital planning allows the Province to identify the magnitude and nature of local capital expenditure plans and can, therefore, consider this information in its own budgetary and program plans.

In Part IV of this report, the Commission discussed some of the issues surrounding long-term capital planning. The Commission has recommended that "the Department of Education promote long-term capital planning by the issuance of a policy statement on capital projects to supplement the criteria for prioritizing projects".

In regard to municipal governments, the Commission noted that five year capital plans can be difficult to prepare without some form of commitment concerning the availability of funding beyond the fixed term of provincial capital grant programs. In order to assist urban and rural municipalities, the Commission has recommended the introduction of an ongoing unconditional grant program to replace the Provincial Capital Fund and the Cultural and Recreational Facilities Grant Program, and that a mechanism be developed to increase the amount of capital funds over time.

5. RECOMMENDATIONS

The Commission recommends the following in regard to financial management:

- **The Commission recommends that standardized reporting and accounting be implemented.**

  The Commission believes that the potential benefits of standardized accounting systems in cities has a great deal of merit and potential for improving the financial management of the larger urban centres. As a minimum, the Commission recommends that standardized financial reporting be implemented as soon as possible. The development of standardized formats should be undertaken jointly by the Department of Urban Affairs, individual cities, and S.U.M.A.

- **The Commission recommends that conversion to an April to March fiscal year not be pursued at this time.**

  The Commission believes that the potential benefits of converting to a different fiscal year are not significant and the disruption to the taxpayers does not appear to justify this conversion.

- **The Commission emphasizes the importance of the recommendations regarding long-term capital planning and the need for the provincial government to be a partner in the planning process in order to generate accurate and meaningful long-term capital plans.**

- **The Commission recommends that provincial authorities devote more of their attention and resources to the diligent development and maintenance of data on capital and operating revenues and expenditures of local governments, to assist in ongoing evaluation and development of policy.**

PART X

SUMMARY

1. OVERVIEW

In its final report, the Local Government Finance Commission has addressed a broad range of issues pertaining to the financing of local governments in Saskatchewan. Issues have been analyzed, options have been explored, and the Commission's conclusions and recommendations have been described.

Local governments provide a means by which people can set local priorities and make local decisions in accordance with the particular desires of the local population served. Having local governance of certain public services provides a more effective means for the overall needs and desires of the population to be met than could be the case if the governance were vested entirely with the provincial government.

There are different types of local government, each with differing degrees of financial and policy-making independence from the provincial government. There are variations in the breadth, complexity, and cost of services provided by the different local governments, and they have varying mechanisms for being held accountable to the public they serve.

In general, the current provincial/local government distribution of responsibilities for the provision of services is appropriate and, on an overall basis, local governments are providing a desirable level of services.

Provincial financial assistance for local governments is required in order to prevent an excessive reliance on the local property tax base and to permit greater equality in levels of service and local tax rates among local governments.

The property tax is the only practical local source of revenue of sufficient magnitude to meet the financial needs of local governments, but care must be taken to ensure that there is greater fairness in this form of taxation.

The Commission firmly believes in the value of local government. The Commission has undertaken its examination of policy options with a view to strengthening local government while, at the same time, maximizing the fairness of the taxation system.

The Commission has proposed a number of measures which are intended to improve the fairness of the distribution of the property tax load among taxpayers.

- An income-related property tax credit was proposed in an earlier Commission report, as a means of dealing with the insensitivity of the property tax to changes in ability to pay and to compensate for the regressivity of the property tax for those with low incomes. This program will provide for more fairness in the net level of property taxes paid.
- Major changes were proposed for the assessment function in an earlier Commission report. Improvements are required in assessments to ensure greater equity in the distribution of the property tax load.
- Changes to the local tax base were proposed, including the payment of grants-in-lieu of taxes on property of the provincial government and the elimination of exemptions for certain categories of property. These measures would broaden the local tax base and more equitably allocate the property tax.
- Property taxes are unduly high for taxpayers of some local governments. The Commission has proposed substantial changes to the formulas used to distribute provincial funds among local governments to ensure that there can be greater equality in both local tax rates and in the level of services.

While these proposals were not intended to address the question of the level of property taxes, if implemented, they would have the effect of reducing net per capita property taxes in Saskatchewan below the national average.

2. THE LOCAL TAX BASE

The Commission has recommended major changes in regard to the local tax base, including:

- The payment of grants-in-lieu of taxes in regard to property owned by the provincial government and in regard to commercial property of the Saskatchewan Power Corporation.

- The removal of tax exemptions from a number of categories of property.
- The conversion of the current system of Saskatchewan Power Corporation grants and surcharges to a local sales tax on natural gas and electricity.
- The discontinuation of current methods of determining business assessments and the introduction of the Percentage of Real Property Assessment Method for all municipalities in the province.

Taken together, these measures will substantially improve the fairness in the distribution of property taxes.

The Commission recommended changes to the Potash Tax Sharing Arrangements.

A mechanism for dealing with other opportunities for commercial/industrial tax sharing was also proposed.

The Commission also noted that business assessment and farmland assessment were bearing relatively large portions of the local tax load, and that the Saskatchewan Assessment Management Agency should pay particular attention to these categories of assessment, as it exercises its responsibilities in determining the incidence of taxation on the different categories of assessment.

The Commission recommended that municipalities continue to be required to levy uniform mill rates on all classifications of property and that individual municipalities not be given the authority to implement variable mill rates.

3. REVENUE SHARING AND THE SCHOOL FOUNDATION SYSTEM

A. Revenue Sharing Concept

The Commission recommended that the revenue sharing concept be retained as a means of determining the size of the operating payments from the provincial government to municipalities, and that the tax bases for the personal income tax, the corporate income tax, the sales tax and gasoline tax be used in the escalator index.

B. Rural Revenue Sharing

The Commission concluded that there were gross inequities in the current distribution of revenue sharing payments to rural municipalities. As a result, the more wealthy municipalities are able to finance high levels of expenditure with relatively low mill rates, while the less wealthy municipalities are able to finance only modest levels of expenditure, but still require relatively high mill rates. To address these issues, the Commission made a number of recommendations, including:

- That both conditional and unconditional grants be continued.
- That conditional road construction grants vary between 20% and 80% of costs, depending on the wealth of the municipality; the same range of assistance currently provided under the bridge grant. This will provide greater equalization.
- That the basic grant be eliminated and these monies be distributed through the equalization formula.
- That approximately $13 million be added to the rural revenue sharing pool. This, along with other changes, would permit the payment of full equalization entitlements to rural municipalities. Full equalization will enable municipalities to provide similar levels of services with similar local tax rates, regardless of their wealth.

  Full equalization is technically possible, but not practical, with the current level of monies in the rural revenue sharing pool.

The Commission concluded that the equalization formula used by the Department of Rural Development was conceptually sound, but that full equalization could not be achieved when only 43.7% of the equalization grants to which municipalities are theoretically entitled are actually paid. Some changes were proposed to the formula, including the recognition of special circumstances such as the extraordinarily high road maintenance and reconstruction costs associated with oil fields.

The Commission also recommended that in light of rail line abandonment and centralization of grain delivery points, a fundamental review of the designated road system be undertaken to ensure that priority is given to those roads which are most needed to accommodate new traffic patterns.

C. Urban Revenue Sharing

The Commission also noted inequities in the distribution of revenue sharing monies among urban municipalities, mainly due to insufficient equalization. Urban municipalities with a small tax base are unable to provide levels of services similar to other municipalities of similar population, but with a large tax base, unless they levy higher mill rates. The Commission made several recommendations in regard to urban revenue sharing:

- That the current per capita grant be retained, but that it be considered as recognized revenue in the foundation grant calculation.
- That the basic grant, which is intended to assist municipalities with very small populations, be eliminated. In its place, the Commission recommends that recognized expenditures in the foundation formula be adjusted to better reflect the expenditures required by small municipalities.
- That approximately $17.0 million be added to the urban revenue sharing pool. This, along with other proposed changes will provide full equalization in the urban revenue sharing system. Full equalization will enable municipalities of similar populations to have similar levels of services at similar local tax rates, regardless of their wealth.

  Full equalization is technically possible, but not practical, with the current level of monies in the urban revenue sharing pool.
- That adjustments be made to the schedule of recognized expenditures and revenues in the foundation formula to provide for greater fairness in the allocation of grants among municipalities in the different population groupings.

The Commission concluded that although a number of changes should be made to the foundation grant formula, it was based on fundamentally sound principles, and its basic structure did not need to be changed.

The Commission recommended that the intermunicipal fire protection and recreation grants be continued.

The Commission noted the extensive use of "grandfathering" provisions and across-the-board percentage increases in urban revenue sharing. Excessive use of "grandfathering" provisions jeopardizes and compromises the equalization principle underlying the grant programs. The Commission recommends that "grandfathering" be used sparingly, only to prevent excessive reductions in grants arising from changes to grant formulas.

D. School Foundation Formula

The Commission concluded that the school foundation formula was based on sound principles and was structured in a fundamentally sound fashion.Substantial inequities arise and the equalization principle is compromised, however, because the recognized expenditures in the formula have fallen considerably below the level of expenditures required by school divisions. Consequently, the less wealthy school divisions must have higher mill rates in order to finance standard levels of services, or have lower levels of services, or both.

The Commission recommended a number of changes to the school foundation grant formula:

- An increase in recognized expenditure of approximately 11.5%, and an increase in the computational mill rate of approximately 11 mills. The increase in recognized expenditures would bring them in line with the actual average level of expenditures of school divisions.

  This would cost approximately an additional $23.5 million. It would enable all school divisions to achieve a realistic and desirable level of programs and services with comparable local tax rates.
- The phasing out of the sparsity factor.

  Other factors in the formula now achieve the objective behind the sparsity factor more effectively.
- The discontinuation of conditional funding for students with high cost learning disabilities and the substitution of unconditional funding to parallel the financial approach which is now used for students with low cost disabilities.

  This will remove the current inappropriate financial incentives for the designation of students with learning disabilities, and will encourage more resources to be put into diagnosis and student services, rather than testing for eligibility for conditional grants.

4. CAPITAL REQUIREMENTS AND FUNDING MECHANISMS

A. Conditionality/Unconditionality

The Commission believes that there are merits for both unconditional and conditional funding.

Unconditional funding enables local officials to make decisions on what is most needed in their respective communities, and it promotes the independence of local governments. The Commission believes that unconditional funding works best in the financing of those types of capital expenditures for which there is a reasonably uniform need among the individual local governments.

The Commission believes that conditional funding works best to assist local governments with needs that are specific to the individual local government at specific times. Such needs cannot be efficiently met by uniform distributions of unconditional monies to all local governments.

B. Urban Municipalities

The Commission reached the following conclusions and recommendations in regard to urban municipal capital financing:

- The lag in the "take-up" of provincial grants and the low levels of capital debt suggest that there is no major backlog of capital requirements in Saskatchewan.

- That urban municipalities will require capital expenditures of an average of approximately $167 million per year over the next 5 years in order to meet their requirements. This represents an increase of 12% over the average level of the past 5 years.

- Urban municipalities can make more extensive use of capital loans and debentures in financing their capital expenditures.

  The level of capital debt is very low in Saskatchewan relative to other provinces.Saskatchewan municipalities can make more extensive use of capital loans and debentures in spreading the cost of capital projects over their useful lifetime without putting an undue burden on future taxpayers.

- That capital loans and debentures should be used to finance a greater proportion of the capital cost of sewer and water utilities, and that user charges should be set at levels which will cover operating costs as well as the amortized cost of capital works, including the repayment of the capital loans and debentures.

  That it is appropriate for user charges to be used in the financing of utilities, particularly sewer and water, so that these utilities become self-financing.

- Municipal Water Assistance and Water Pollution Control Grants should be restructured to reflect the general objective of financing water and sewer utilities through reasonable user charges. Grants should be focused on those municipalities which require capital grants to keep their utility rates within reason and without the need for a general municipal subsidy. Municipalities which can meet their capital costs with reasonable user charges do not require and should not receive water and sewer grants.

- That the Cultural and Recreational Facilities Grant Program which will expire on March 31, 1988, not be renewed.

- The establishment of a new ongoing unconditional capital grant to replace the Provincial Capital Fund and the Cultural and Recreational Facilities Grant Program. The initial level of the fund should be no less than $30 per capita per year.

- That the grants be paid to individual municipalities on a per capita basis.

- That the foundation grant formula under revenue sharing include standard expenditure amounts for capital debt retirement, current revenue contributions for capital, and contributions to reserves and trust funds so that there will be equalization in the overall funding of capital projects.

- That the new provincial capital program be ongoing (no specified termination date), and that a mechanism be established to increase the amounts over time. This could be accomplished by the development of an escalator index or by using a dedicated tax (the proceeds of which would grow over time) to finance the capital fund.

- That municipalities be paid their full allocation under the new unconditional provincial capital program each year, either to spend on capital that year, or to be placed in a Capital Trust Fund for subsequent use for related capital debt retirement or capital expenditures.

  By being able to place their allocations in a Capital Trust Fund where they will earn interest, municipalities which use their allocations later than other municipalities will not see their allocation suffer a loss in purchasing power. It will also be of assistance to the smaller municipalities which need to accumulate several years of allocations before they have sufficient monies with which to finance their project(s).

C. Rural Municipalities

In regard to rural municipal capital funding, the Commission notes that major portions of road and bridge construction could be considered to be capital expenditures and that the provincial government currently provides assistance for these expenditures through revenue sharing.

However, the Commission also believes that rural municipalities should receive capital grants to assist in the construction of municipal buildings, purchasing equipment, and the construction of cultural/recreational and other capital projects either on their own, or in conjunction with urban municipalities in their area.

The Commission recommends that rural municipalities be provided with an unconditional capital grant with an initial value of no less than $15 per capita per year.

As with the proposed new urban capital program, the Commission recommends that:

- The program be ongoing (no specified termination date).
- A mechanism be developed to increase the amounts over time.
- Municipalities be paid their full allocation each year, either to spend on capital in that year, or to be placed in a Capital Trust Fund for subsequent use for related capital debt retirement or capital expenditures.

The Commission recommends that municipalities be allowed to use the monies for road or bridge construction, if they so wish. This is necessary to ensure that the grant program does not create a bias against the contracting of construction work in favour of the use of municipal forces.

The monies could be distributed to municipalities on a straight per capita basis, or on the basis of a certain percentage of the standard annual expenditure requirements used in the equalization formula.

It may be desirable to have components in recognized expenditures in the rural equalization formula to account for current revenue contributions to capital, thus achieving an equalizing effect on the overall funding of capital projects.

D. School Divisions

In regard to the financing of school capital projects, the conclusions and recommendations of the Commission are:

- That the level of capital debt for school divisions is not a cause for concern.
- That conditional funding should continue for major capital projects.
- That the Department of Education should announce approval of all high priority projects in early November of the same year in which requests have been submitted by school divisions, and that approval of remaining projects be announced at the time of the Budget Speech. This will enable school divisions to proceed with construction of capital projects at a more opportune time, to reduce construction costs, and to reduce the overall timelines for projects.
- That the Department of Education should adhere closely to the criteria which it has developed for prioritizing projects requested by school divisions.
- That the Department of Education should promote long-term capital planning by the issuance of a policy

statement on capital projects to supplement the criteria for prioritizing projects.

The Commission believes that there is merit in the current school capital financing arrangements, including the full reimbursement of the provincial government of approved capital debt retirement. The Commission believes that there would be merit, however, in the explorations of two options:

- Roof Repairs

  Under this option, school divisions would receive financial support for only a percentage of the cost of a roof repair project. The percentage of assistance would vary with the wealth of the school division in accordance with the equalization principle. This would provide incentives for ongoing maintenance and repair of roofs.

- Renovations

  Under this option, school divisions would receive reimbursement for only a portion of their approved capital debt retirement. The percentage would vary from division to division in accordance with the equalization principle.In return for less than full reimbursement of capital debt retirement, divisions would receive unconditional capital grants to assist them with ongoing renovations and repairs for which no other assistance would be provided. This would enable school divisions to act in accordance with their own priorities and time schedule, in regard to this category of capital projects.

E. Central Debt Financing Authorities

In regard to the issue of central debt financing authorities, the conclusions and recommendations of the Commission are:

- That the present system of marketing local government debentures in Saskatchewan is fundamentally sound and should be continued.

- That the Local Government Board and the Municipal Financing Corporation play vital roles and have contributed in a major way to a sound system of capital debt financing in Saskatchewan.

- That the Municipal Financing Corporation update the interest rate at which it is prepared to purchase debentures more often than its current practice of a monthly basis, and that the rates be "structured" in accordance with the term of the security.

- That the Local Government Board consider certain changes in its current policies:

  — Local governments should be permitted to issue debentures with either annual or semi-annual payment of interest. This would improve accessibility of Saskatchewan local government debentures in some markets.

  — Local governments should be permitted to issue debentures of longer than 10 years in certain circumstances. One of the purposes of debt financing is to spread the capital cost of certain facilities over their useful lifetime and, for some large facilities, differences in the term of the securities make a substantial difference in the annual debt retirement load.

  — Local governments should be allowed to award contracts before debentures are actually sold. The current policy of requiring debentures to be sold before contracts are let may require certain local governments to issue debentures at an inopportune time.

  — Within the ceiling established by the Local Government Board, local governments should be allowed to change the interest rate on debentures as an administrative matter not requiring a bylaw, thereby facilitating the ability of local governments to respond promptly to changes in interest rates.

- That **The Local Improvements Act** be amended to permit municipalities to issue debentures on local improvement projects before the work is completed. This, too, would give municipalities more flexibility in dealing with the capital markets.

5. HOSPITAL GOVERNANCE AND FINANCE

The Commission reached a number of conclusions and made a number of recommendations in regard to the governance and funding of hospitals:

- That hospital services should continue to be primarily a provincial responsibility.

- That the Saskatchewan Hospital Services Plan continue to fund 100% of the cost of services which it deems to be appropriate for each hospital, based on the expenditures which it deems to be sufficient to finance those services.

- That the property tax not be used as a primary or major source of funding for hospitals.

- That hospital boards continue to have the authority to provide hospital services additional to those which are approved and funded by the provincial government.

- That any additional services provided by hospital boards above the provincially defined level, as well as expenditures above the approved level on the provincially defined level of services continue to be financed from local sources.

- That all municipalities be required to be a member of a union hospital district or a district which supports a Crown or religious/not-for-profit hospital.

- That local property tax levies by a hospital board be subject to the approval of a numerical majority of municipalities in the district, and by municipalities representing a majority of the assessment base in the district.

  The Commission identified a number of options relating to the method in which requisitions would be presented to municipalities and requests would be rationalized, in situations where there is more than one hospital in a district.

- That religious/not-for-profit hospitals have access to the local property tax base on the same basis as union hospitals. That is, they should have the right to requisition funds, but the requisition must be approved by the majority of municipalities and by municipalities representing a majority of the assessment base in the district.

- That, as an ultimate objective, district health authorities be developed to plan and rationalize the health delivery system and:

  — That there be renewed effort at working toward coterminality of boundaries of agencies delivering health programs; and

  — That district health planning bodies be established to focus on planning for health programs at the local level.

- That the current practices of financing capital expenditures from a combination of provincial grants and local contributions be continued.

- That the Public Health Levy be eliminated.

- In regard to the public health programs delivered by the cities of Saskatoon and Regina, the Commission recommends that the provincial government increase its grants to levels which reflect the cost of services delivered through the Community Health Services Branch of the Department of Health to residents of other municipalities in the province.

- That the Saskatchewan Assistance Plan Levy be discontinued.

6. GOVERNANCE AND FUNDING OF LIBRARIES

The Commission reached a number of conclusions and made the following recommendations concerning the governance of libraries:

- That the current governance arrangements for libraries are generally satisfactory.

- That the division of responsibilities among the three-tiered library system is appropriate.

- Although the governance structure for regional libraries provides for less than ideal accountability to taxpayers, the arrangements are the best of the available alternatives.

- That the current method of selecting members of regional library boards be retained.

- That the regional library budget continue to be approved at an annual board meeting.

- That participation in regional libraries should continue to be optional, rather than be made compulsory.

- That responsibility for public libraries should continue to be vested in library boards, rather than be assigned to school divisions.

The Commission also reached a number of conclusions and made the following recommendations regarding the financing of libraries:

- That the current overall provincial/local share of operating costs for regional libraries is acceptable.

- That relative to regional libraries, Regina and Saskatoon's municipal libraries receive insufficient provincial funding and that, as an interim measure, provincial grants to these municipal libraries should be increased by approximately $3 per capita.

- That a foundation grant formula should be developed to replace the current funding formula. The current funding formula has several flaws and needs to be resolved. The proposed library grant formula would consist of objectively determined expenditure requirements for each library and objectively determined amounts each library can be expected to finance locally. The foundation formula should be used to determine funding for both regional and municipal libraries.
- That user fees should not be relied upon as a major source of funding for libraries.
- That the current approach to financing capital requirements should continue, rather than developing a conditional capital grant for libraries.

7. FINANCIAL INTERRELATIONSHIPS

The Commission noted that recommendations can be considered individually or as a package. The Commission noted that implementation of certain recommendations helped to achieve the objectives behind other recommendations. The Commission recommended that the recommendations be dealt with as an integrated package in order to achieve the objectives behind the recommendations in the most cost effective way and in a way which achieves a reasonable balance in terms of overall benefits to property taxpayers in urban and rural municipalities. Recommendations which would cost a total of $88.6 million if implemented separately could be implemented for a total of $60.1 million, if they were dealt with as an integrated package.

The Commission identified ways in which its recommendations could be phased in over a period of years, if this were deemed necessary or desirable.

8. RELIANCE ON THE PROPERTY TAX AND PROVINCIAL FUNDING

A. Level of Property Taxation

The Commission made numerous recommendations designed to improve fairness in the property tax system and more equitably distribute property taxes. The Commission's recommendations, while not directed at the overall level of property taxation, would have the effect of lowering net property taxes in Saskatchewan below the national average.

By virtue of having addressed a number of important issues that would improve the fairness of the property tax and promote greater equity in the property tax loads borne by property taxpayers in the various local governments, many of the concerns that have led some to urge that property taxes be reduced, have been dealt with.

Nevertheless, the Commission identified a number of options which would achieve a reduction in the reliance on the property tax.

The Commission examined in detail the option of having 75% provincial funding of education. This option would cost an additional $174 million in provincial grants and would enable school divisions to reduce their mill rates by about 59 mills from their current (1985) level of 112 mills. The Commission does not support the 75% option for 3 main reasons:

- Increasing provincial grants to cover, on average, 75% of costs, simply to reduce property taxes, does not address the basic issue of fairness.
- 75% funding of education would jeopardize the autonomy of school divisions.
- It would not achieve consensus over the issue school divisions having access to the property tax base. The municipal organizations have indicated that their objective is to have education removed entirely from the property tax.

The Commission also examined the option of increasing grants to school divisions to enable them to reduce their mill rates to the average municipal level. This would increase grants as a percentage of school division revenue to between 56% and 62%, depending on whether it was the current rural, urban or average rural/urban mill rate that was used as the target. The Commission believes that provincial grants at those levels would not jeopardize the autonomy of school divisions. As with the 75% option, this option does not address the issue of fairness and it would be unlikely to achieve consensus over the use of the property tax by school divisions.

Some have suggested that provincial funding for municipalities should be reduced, that the monies be given instead to school divisions, and that other measures also be taken to provide complete provincial funding of education. Apart from the concerns the

Commission would have about school divisions not having access to the property tax base, the Commission noted that there are serious inequities in the current system of payments to municipalities because of the low level of equalization that is achieved. Reductions in funding to municipalities would only serve to exacerbate the current inadequacies in equalization and, accordingly, the Commission strongly recommends that provincial funding for municipalities not be reduced to finance complete provincial funding of education.

The Commission examined three types of rebate programs that could be used as a means of reducing the level of property taxes. The Commission has recommended an income-related rebate program to address the insensitivity of the property tax to changes in ability to pay and the regressivity of the property tax for those with low incomes. The Commission believes that an income-related property tax credit is preferable to a non-income related rebate because the former targets the rebates to those who need them most and is a more cost effective means of achieving property tax relief. The Commission also notes, however, that non-income related rebate schemes with a system of limits and ceilings is a less costly mechanism for achieving reductions in net property taxes than across-the-board reductions achieved through increases in provincial payments to local governments.

B. Provincial Sources of Revenue

The Commission examined a number of provincial sources of revenue which could be used by the provincial government to finance the recommendations proposed by the Commission or to bring about even further increases in payments to local governments and, hence, even further reductions in local property taxes:

- Tax on Motor Vehicle Fuels

  The Commission believes there is potential for use of the motor vehicle fuel tax base to assist in the funding of local governments.

  The fuel tax could be considered as a dedicated tax to finance the proposed urban and rural unconditional capital grant programs. A tax of about 1.2¢ per liter would fund the 2 programs. Much of the capital expenditures of municipalities is transportation-related, and the tax could be looked upon as a user charge for transportation infrastructure. It would provide an automatic means for increasing the value of the capital fund over time.

  Much of the operating expenditures of urban and rural municipalities is transportation-related. Accordingly, the fuel tax could also be considered as a user charge to assist in the financing of the revenue sharing programs.

- Sales Tax

  The retail sales tax in Saskatchewan is lower than in any other province, except Alberta which has no retail sales tax. Hence, this is a potential source.

- Personal Income Tax

  The fact that taxes on personal income in Saskatchewan are already relatively high would suggest to some that this is not a desirable potential source from which to finance additional payments to local governments.

  There is currently much discussion about reforms to the personal income tax system in terms of:

  - Broadening the tax base and rationalizing exemptions and deductions from income;

  - Reducing the marginal rates of taxation and strengthening work incentives; and

  - Simplifying the rules under which taxable income is determined.

  The Commission believes that, in the context of reforms which may take place in the personal income tax system, there may be greater potential for the use of this source of revenue for the financing of additional payments to local governments.

- Corporate Income Tax

  Corporate income taxes are higher in Saskatchewan than in any other province, and the yield is relatively small. The Commission believes this is an unlikely source for financing additional payments to local governments.

- Resource Revenues

  The volatility of these revenue sources make them unsuitable as a means of financing payments to local governments.

The Commission has not made specific recommendations on the rates of taxation which should be applied to the foregoing provincial tax bases. The Commission did not undertake a detailed study of the incidence of taxation which would have arisen from the use of the different forms of taxation because this would have been a task of major proportions, and it would have been beyond the mandate of the Commission. A review of all provincial government responsibilities would be required in order to come to conclusions on the respective rates to be applied to the various tax bases.

9. OTHER MATTERS

The Commission recommends that the provincial government establish a mechanism for an indepth review of issues and questions relating to the structure of local governments.

The Commission was deeply impressed by the seriousness of economic and social conditions of the North and believes that processes and mechanisms other than this particular Commission are required to address them.

The Commission recommends that municipalities continue to be required to levy uniform mill rates on different classifications of assessment and that municipalities not be given the authority to vary the incidence of taxation through the use of variable mill rates.

The Commission recommends that standardized reporting and accounting be implemented for local governments.

The Commission recommends that the provincial government adopt practices which will facilitate long-term capital planning by local governments.

The Commission recommends that provincial authorities devote more resources to the diligent development and maintenance of data on capital and operating revenues and expenditures of local governments, to assist in the ongoing evaluation and development of policy.

10. SUMMARY

The Commission has addressed a wide range of issues and has made recommendations which will strengthen and improve the fairness in the local tax base, provide for equality in the ability of local governments to provide comparable services at comparable local tax rates, and provide for the capital needs of local governments on an equitable basis.

The Commission has also addressed some fundamental issues relating to the governance and funding of hospitals and has proposed a new foundation grant system for libraries.

While the Commission's recommendations were focused primarily upon improving equity, they would also have the effect of lowering property taxes in Saskatchewan below the national average.

The Commission identified options for bringing about further reductions in the reliance on the property tax.

The Commission identified potential provincial revenue sources that could be used to finance its recommendations or to finance additional payments to local governments.

In short, the Commission has made a broad range of recommendations which will both strengthen local governments and greatly improve the fairness in their financing.

APPENDICES

APPENDIX II-1

ANALYSIS OF EXEMPT ASSESSMENT IN SASKATCHEWAN

1984

Category of Assessment	Estimated Assessment (Millions)[1]	Assessment as a Percentage of Total Assessment	Assessment as a Percentage of Total Exempt Assessment	$ Revenue (Millions)[2]
Property on Which Grants-in-Lieu are Paid				
Federal Government	$ 89.49	1.3%	6.6%	$ 9.78
Provincial Government[3]	150.18	2.1	11.2	16.52
Other	5.53	0.1	0.4	0.64
TOTAL	$ 245.20	3.5%	18.2%	$ 26.94
Property on Which No Grants-in-Lieu are Paid				
Federal Government	3.08	0.1	0.2	0.31
Provincial Government	160.32	2.3	11.9	17.84
Municipal Government	270.98	3.8	20.1	29.80
Other Local Governments	16.58	0.2	1.2	1.72
School Divisions	199.60	2.8	14.8	21.47
Universities/Colleges	92.60	1.3	6.9	10.70
Hospital	68.99	1.0	5.1	7.66
Churches	59.89	0.9	4.4	6.50
Agricultural Improvements	163.47	2.3	12.1	16.51
Other Statutory	57.71	0.8	4.3	6.46
SUB-TOTAL	$1,093.22	15.5%	81.2%	$118.97
Municipal Bylaw	7.86	0.1	0.6	0.81
TOTAL	$1,101.08	15.6%	81.8%	$119.78
Total Exempt	$1,346.28	19.1%	100.0%	$146.72
Total Taxable	$5,692.43	80.9%		
Total Taxable & Exempt	$7,038.71	100.0%		

FOOTNOTES:

[1] The source of the information is returns prepared by municipalities and compiled by the Commission. Because not all municipalities have reported, it was necessary to extrapolate to obtain totals. Assessments are based on the new (1976) manual.

[2] This is the revenue that would be generated if the average mill rate for various categories of municipality were applied to the estimated exempt assessment for that category of municipality.

[3] The data on revenues from provincial government property on which grants-in-lieu of taxes were paid was obtained from Statistics Canada, rather than the analysis of municipal returns. The assessment figure was extrapolated on the basis of an average mill rate of 110 mills on the new (1976) values.

Totals may not add to 100.0 because of rounding.

Local Government Finance Commission
September, 1986

APPENDIX II-2

MUNICIPAL SURCHARGE, ELECTRICAL AND GAS GRANTS IN 1985
(in $'000)

Cities	Surcharge	Electric Grant	Gas Grant	Total
Estevan	$ 342	$ 159	$ 137	$ 639
Lloydminster[1]	51	18	0	69
Melfort	212	98	83	392
Melville	152	67	75	294
Moose Jaw	1,099	520	651	2,270
North Battleford	495	224	242	962
Prince Albert	1,299	603	913	2,815
Regina	5,982	3,306	2,812	12,100
Saskatoon[1]	1,628	740	2,741	5,109
Swift Current[1]	4	2	281	287
Weyburn	345	114	152	610
Yorkton	543	271	280	1,095
TOTAL CITIES	$12,150	$6,122	$ 8,368	$26,640
Towns and Villages	4,362	0	1,812	6,174
TOTALS	$16,512	$6,122	$10,180	$32,814

---

[1] These cities are not fully served by S.P.C., e.g. Saskatoon and Swift Current serve major areas with their municipally owned electrical distribution systems, and most of Lloydminster is served from Alberta.

SOURCE: S.P.C.

Local Government Finance Commission
September, 1986

APPENDIX III-1

IMPACT OF PARTIAL AND FULL EQUALIZATION

COMPARISON OF MOST WEALTHY AND LEAST WEALTHY MUNICIPALITIES[1]

Rural Municipality Number and Name	1984 Equalized Assessment[2]	Standard Gross Annual Expenditure[3]	Gross Theoretical Mill Rate Requirement[4]	Mill Rate Requirement After Conditional Grants[5]	1985 Actual Equalization Grant in $[6]	Full Equalization Grant[7]	Increase in Equalization in $[8]	Increase in Equalization in Mills[9]	Mill Rate Requirement after Conditional and 1985 Actual Equalization Grants[10]	Mill Rate Requirement after Conditional and Full Equalization Grants[11]
15 Most Wealthy Municipalities[1]										
159 Sherwood	$19,970,970	$433,565	21.0 mills	19.8 mills	$ 0	$ 0	$ 0	$ 0	19.8 mills	19.8 mills
5 Estevan	8,952,590	452,696	49.7	41.7	0	0	0	0	41.7	41.7
161 Moose Jaw	6,310,240	415,764	50.9	43.5	0	0	0	0	43.5	43.5
471 Eldon	9,275,989	546,442	58.8	45.0	0	0	0	0	45.0	45.0
319 Winslow	6,865,195	429,437	62.4	52.1	0	0	0	0	52.1	52.1
128 Lajord	7,051,375	463,678	65.7	52.9	0	0	0	0	52.9	52.9
320 Oakdale	6,104,020	425,979	69.0	57.5	0	0	0	0	57.5	57.5
37 Lomond	5,856,610	423,655	70.1	58.4	0	0	0	0	58.4	58.4
168 Riverside	8,596,560	611,901	71.1	58.0	0	0	0	0	58.0	58.0
4 Coalfields	6,404,720	466,026	71.7	60.4	0	0	0	0	60.4	60.4
472 Wilton	10,962,652	825,081	75.2	57.3	0	0	0	0	57.3	57.3
34 Browning	7,657,010	585,769	76.3	63.9	0	0	0	0	63.9	63.9
162 Caron	4,120,644	326,791	79.0	62.2	0	0	0	0	62.2	62.2
36 Cymri	6,081,300	497,993	80.7	64.0	0	0	0	0	64.0	64.0
290 Kindersley	11,162,415	918,302	81.2	69.3	0	0	0	0	69.3	69.3
AVERAGE	$ 8,358,153	$521,539	65.5 mills	53.7 mills	$ 0	$ 0	$ 0	$ 0	53.7 mills	53.7 mills
15 Least Wealthy Municipalities										
490 Garden River	$ 1,776,537	$450,507	253.4 mills	172.5 mills	$ 75,694	$173,212	$ 97,519	54.9 mills	129.9 mills	75.0 mills
335 Hazel Dell	1,943,250	508,141	256.1	170.7	81,285	186,008	204,722	53.9	128.9	75.0
464 Leask	2,517,740	683,657	267.6	178.0	113,293	259,252	145,959	58.0	133.0	75.0
101 Terrell	1,654,220	458,583	277.1	187.6	81,427	186,331	104,905	63.4	138.4	75.0
463 Duck Lake	1,496,030	426,208	279.6	211.0	88,892	203,415	114,523	76.6	151.6	75.0
561 Loon Lake	1,908,635	542,705	280.4	194.0	99,263	227,147	127,884	67.0	142.0	75.0
469 Turtle River	1,638,410	463,237	282.1	184.5	78,386	179,373	100,987	61.6	136.6	75.0
44 Waverley	1,892,470	553,932	292.7	191.4	96,289	220,340	124,052	65.6	140.6	75.0
377 Glenside	1,479,245	451,926	305.3	196.2	78,373	179,344	100,970	68.3	143.3	75.0
622 Beaver River	1,659,326	538,878	319.7	230.9	113,033	258,656	145,623	87.8	162.8	75.0
467 Round Hill	1,572,420	537,596	334.9	193.1	81,118	185,624	104,506	66.5	141.5	75.0
435 Redberry	2,007,710	676,268	336.8	227.5	133,781	306,136	172,354	85.8	160.8	75.0
555 Big River	882,815	318,708	342.0	230.7	60,048	137,410	77,362	87.6	162.6	75.0
466 Meeting Lake	1,545,410	569,040	352.0	215.2	94,710	216,728	122,018	79.0	154.0	75.0
497 Medstead	1,326,265	491,355	368.4	249.1	100,881	230,850	129,968	98.0	173.0	75.0
AVERAGE	$ 1,686,699	$511,383	303.2 mills	202.2 mills	$ 91,765	$209,988	$118,223	71.6 mills	146.6 mills	75.0 mills

APPENDIX III-1 (continued)

IMPACT OF PARTIAL AND FULL EQUALIZATION

COMPARISON OF MOST WEALTHY AND LEAST WEALTHY MUNICIPALITIES[1]

Rural Municipality Number and Name	1984 Equalized Assessment[2]	Standard Gross Annual Expenditure[3]	Gross Theoretical Mill Rate Requirement[4]	Mill Rate Requirement After Conditional Grants[5]	1985 Actual Equalization Grant in $[6]	Full Equalization Grant[7]	Increase in Equalization in $[8]	Increase in Equalization in Mills[9]	Mill Rate Requirement after Conditional and 1985 Actual Equalization Grants[10]	Mill Rate Requirement after Conditional and Full Equalization Grants[11]
Average for 50 Most Wealthy	$ 5,875,524	$485,439	74.8 mills	62.4 mills	$ 3,388	$ 7,753	$ 4,365	1.0 mills	61.6 mills	60.5 mills
Average for 50 Least Wealthy	$ 2,281,883	$548,041	245.9 mills	165.8 mills	$ 85,364	$195,340	$109,977	51.1 mills	126.1 mills	75.0 mills
Average for 100 Most Wealthy	$ 4,656,365	$462,179	98.9 mills	76.3 mills	$ 13,745	$ 31,452	$ 17,708	5.0 mills	72.4 mills	67.4 mills
Average for 100 Least Wealthy	$ 2,428,557	$508,842	212.2 mills	202.2 mills	$ 73,734	$168,728	$ 94,994	41.0 mills	116.0 mills	75.0 mills

---

FOOTNOTES:

[1] Several municipalities (#152, #343, #160, and #345) which receive large amounts of potash tax sharing payments are excluded from the list of the 15 most wealthy municipalities because of the complications arising from the fact that the amount of revenue they receive from revenue sharing is affected by the mill rate they levy.
R.M. #521 is also excluded from the list because its relatively small designated road network results in an overstatement of its relative wealth.
R.M. #11 is also excluded because of complications arising from the receipt of large amounts of grants-in-lieu of taxes.

[2] Self explanatory.

[3] This is the total standard expenditure requirement for each municipality as determined by the application of objective criteria described in Part III, Chapter Two, section 2A. This is used in the calculation of the 1985 equalization grant.

[4] This is the mill rate which the respective municipalities would require to finance its standard gross annual expenditure if there were no conditional or unconditional revenue sharing payments. Grants-in-lieu of taxes and potash tax sharing payments are taken into account in this calculation. The fact that a municipality's mill rate affects the amount of potash tax sharing to which it is entitled is ignored for the purposes of these tables.

[5] These are the mill rates which the municipalities would require to finance their respective standard gross annual expenditures, taking into account the availability of conditional grants as defined in the calculation of the equalization grant.

[6] This is 43.7% of the theoretical equalization entitlement for each municipality. Because the amount of monies allocated to equalization under revenue sharing was only 43.7% of the amount required to provide the full equalization entitlement, the amount to each municipality was scaled back accordingly.

[7] This is the amount of equalization grant that would be paid in 1985, if the full entitlement were actually made available to the individual municipalities.

[8] This is the dollar difference between the full equalization grant and the amount actually paid in 1985.

[9] This is the increase in equalization expressed in the equivalent of mills on the local tax base (equalized assessment) of the municipality.

[10] This is the mill rate required to finance the standard gross annual expenditures, taking into account conditional grants, 1985 actual equalization, grants-in-lieu of taxes and potash tax sharing payments.

[11] This is the mill rate required to finance the standard gross annual expenditure, taking into account conditional grants, full equalization grants, grants-in-lieu of taxes, and potash tax sharing payments.
The fact that potash sharing payments are affected by the mill rate of the municipality is ignored in the last two columns.

NOTE:

The purpose of this appendix is primarily to demonstrate the effects of partial and full equalization. The effects of the basic grant are ignored in this appendix, but are taken into account in the examination of options in section 6 of this chapter.

Local Government Finance Commission
September, 1986

APPENDIX III-2

ANALYSIS OF IMPACT OF OPTIONS TO ACHIEVE GREATER EQUALIZATION[1]

		Options Without An Overall Increase in Grants				Options With an Aggregate Increase in Grants			
		Option 1	Option 2	Option 3	Option 4	Option 5	Option 6	Option 7	Option 8
Item	Current 1985 Arrangements[2]	Treat Basic as Recognized Expenditures	Eliminate Basic Grant	Eliminate Basic, Reduce Conditional Grants	Eliminate Basic Reallocate Equalization	Provide Full Equalization Payout	Eliminate Basic Provide Full Equalization	Eliminate Basic, Reduce Conditional Provide Full Equalization	Eliminate Basic, 20% - 80% Conditional Provide Full Equalization
Total Grants									
Conditional (Long Term)[3]	$34,486,347	$34,486,347	$34,486,346	$21,898,468	$34,486,346	$34,486,346	$34,486,347	$21,898,468	$24,226,819
Basic	2,773,306	2,773,306	—	—	—	2,773,306	—	—	—
Equalization	13,231,597	13,230,219	16,005,085	28,590,884	15,987,930	30,278,254	30,278,254	42,113,543	39,268,579
TOTAL	$50,491,250	$50,489,872	$50,491,431	$50,489,352	$50,474,276	$67,537,906	$64,764,601	$64,012,010	$63,495,398
Change in Total From Current (1985)	—	$0.0 million	$0.0 million	$0.0 million	$0.0 million	$17.0 million	$14.3 million	$13.5 million	$13.0 million
Average Total Grants Received by Groupings of Municipalities[4]									
15 Most Wealthy	$ 102,327	$ 102,326	$ 90,118	$ 70,601	$ 90,118	$ 102,326	$ 90,118	$ 70,601	$ 51,662
15 Least Wealthy	269,689	272,835	279,127	286,972	341,177	387,912	378,115	378,115	378,115
50 Most Wealthy	97,971	97,034	98,532	73,107	84,434	102,336	92,187	78,346	68,227
50 Least Wealthy	272,836	275,169	280,362	285,403	322,472	382,813	372,446	372,446	372,446
100 Most Wealthy	114,153	112,798	107,704	98,812	93,566	131,860	122,531	115,005	109,839
100 Least Wealthy	234,878	236,502	240,556	245,774	266,909	329,872	320,094	320,094	320,094
Mills Required to Finance Standard Annual Expenditures by Groupings of Municipalities[5]									
15 Most Wealthy	52.1 mills	52.1 mills	53.7 mills	56.2 mills	53.7 mills	52.1 mills	53.7 mills	56.2 mills	58.7 mills
15 Least Wealthy	140.7	138.8	134.9	130.2	96.9	69.1	75.0	75.0	75.0
50 Most Wealthy	59.7	59.9	61.4	64.1	62.4	58.7	60.5	62.9	64.5
50 Least Wealthy	121.4	120.2	117.8	115.2	96.9	70.3	75.0	75.0	75.0
100 Most Wealthy	70.3	70.6	71.6	73.4	75.6	65.2	67.4	68.9	69.7
100 Least Wealthy	111.9	111.1	109.3	107.0	96.9	70.8	75.0	75.0	75.0
Percentage of Theoretical Equalization Entitlement Paid[6]	43.70%	47.41%	52.86%	67.89%	100.00%	100.00%	100.00%	100.00%	100.00%
Computational Mill Rate[7]	75 mills	75 mills	75 mills	75 mills	96.9 mills	75 mills	75 mills	75 mills	75 mills

APPENDIX III-2 (continued)

ANALYSIS OF IMPACT OF OPTIONS TO ACHIEVE GREATER EQUALIZATION[1]

FOOTNOTES:

[1] See notes below for an explanation of each option.

[2] The 1985 arrangements are used as a base from which to make comparisons. All assessment, road mileages, etc. that were used in the 1985 grant calculations are also used in the various options.

[3] These are the conditional grants which municipalities are credited with receiving as part of the calculation of the equalization grant. They include the provincial share of road construction costs, maintenance grants and bridge grants. This amount is not the same as what municipalities receive in a particular year but, instead, is intended to reflect what municipalities will receive on an average long-term annual basis.

[4] These are the average conditional, basic and equalization grants to which the municipalities would be eligible under the respective options. As noted in footnote 4, the conditional grants are long-term average grants that the municipalities are credited with receiving. The groupings of municipalities are chosen on the basis of the mill rates they would have to levy to meet their standard annual expenditure requirements in the absence of provincial grants. The lower the mill rate, the wealthier the municipality and the higher the mill rate the less wealthy the municipality.

[5] These are the mill rates required for the groupings of municipalities to finance their standard annual expenditures taking into account the conditional, basic and equalization grants to which they would be entitled under the respective options.

[6] When the amount of monies allocated from the revenue sharing pool for equalization grants is less than the aggregate amount of equalization grant calculated for municipalities (their theoretical entitlement) each municipality is given only a percentage of its theoretical entitlement so as to match the total payout with the monies available. These percentages are the aggregate payouts as a percentage of the aggregate theoretical entitlements under the respective options.

[7] This is the theoretical mill rate or computational mill rate used in the calculation of the equalization grant.

EXPLANATION OF OPTIONS:

Option 1- Under this option, everything remains the same as under the 1985 formula, except that the basic grant is treated as local revenue in the calculation of the equalization grant.

Option 2- Under this option, the basic grant is eliminated and the monies are allocated to equalization. This permits a higher percentage of the equalization entitlement to be paid.

Option 3- Under this option, the basic grant is eliminated and the conditional road construction grants are reduced from their current percentages to 30% for main farm access roads, 40% for grid roads and 50% for primary grid roads. The "savings" are allocated to the equalization grant.

Option 4- Under this option, the basic grant is eliminated and allocated to equalization, and the computational mill rate is increased to the point where each municipality can receive 100% of its theoretical equalization grant entitlement.

Option 5- Under this option, nothing is changed in relation to the 1985 formulas, except that each municipality is given 100% of its theoretical equalization entitlement.

Option 6- Under this option, the basic grant is eliminated and allocated to equalization. Each municipality receives its full equalization entitlement.

Option 7- Under this option, the basic grant is eliminated, the conditional construction grants are reduced as in Option 3, and each municipality is given its full equalization entitlement.

Option 8- Under this option, the basic grant is eliminated, construction grants vary between 20% and 80%, depending on the wealth of the municipality, and each municipality is given its full equalization entitlement.

Local Government Finance Commission
September, 1986

APPENDIX III-3

EXAMPLES OF CONTRASTING FISCAL CAPABILITIES OF MUNICIPALITIES

Name of Municipality	Population of Municipality	Assessment Per Capita	Mill Rate Required to Meet Standard Expenditure[1]
1. Laverna	37	$1,687	153 mills
Tessier	37	3,004	86
2. Admiral	52	3,650	65
Goodwater	53	1,204	196
3. Benson	90	1,382	155
Tuxford	90	2,370	87
4. Elstow	143	1,127	153
Stenen	143	2,593	78
5. Maymont	212	1,299	150
Wishart	212	2,000	98
6. Lebret	274	1,107	118
Dysart	275	2,054	91
7. Sedley	373	1,721	113
Mankota	375	2,479	77
8. Kyle	516	2,471	90
Osler	527	1,119	218
9. Lafleche	583	2,234	102
Colonsay	594	1,470	140
10. Balgonie	777	1,152	210
Kinistino	783	1,816	146
11. Martensville	1,966	1,288	245
Outlook	1,976	2,306	141
12. Meadow Lake	3,857	2,160	173
Kindersley	3,969	3,031	110

---

[1] This is computed by taking the total expenditure recognized in the foundation formula (which is an average of actual expenditures of municipalities in the respective population groupings) and subtracting grants-in-lieu of taxes, trailer licence fees and any potash tax sharing, before the calculation is done. It assumes there are no grants available.

Local Government Finance Commission
September, 1986

APPENDIX III-4

IMPACT OF REVENUE SHARING OPTIONS (OPTIONS ENTAILING NO INCREASE IN AGGREGATE GRANTS)

MOST WEALTHY AND LEAST WEALTHY MUNICIPALITIES

		Mill Rate Required to Meet Standard Expenditure As a Percentage of Computational Mill Rates				
		Option 1	Option 2	Option 3	Option 4	Option 5
Population Category	**Current Arrangements**[1]	**Basic and Per Capita Considered as Recognized Revenue**[2]	**Basic and Per Capita Considered as Recognized Revenue; and Increase Computational Mill Rate**[3]	**Reallocate Foundation to Per Capita**[4]	**Reallocate Per Capita to Foundation**[5]	**Reallocate Per Capita to Foundation and Increase Computational Mill Rate**[6]
1 - 100 Least Wealthy[7]	121%	136%	109%	118%	90%	50%
Most Wealthy[7]	67	75	75	70	85	87
Difference in % points[8]	54	61	34	48	5	-37[9]
101 - 250 Least Wealthy	131	140	109	117	120	82
Most Wealthy	76	87	87	81	97	99
Difference in % points	55	53	22	36	23	-17[9]
251 - 500 Least Wealthy	102	115	108	108	113	98
Most Wealthy	74	81	81	81	100	103
Difference in % points	28	34	27	27	13	- 5[9]
501 - 1,000 Least Wealthy	147	139	109	259	131	104
Most Wealthy	95	104	107	145	107	106
Difference in % points	52	35	2	114	24	- 2[9]
1,001 - 1,500 Least Wealthy	162	146	109	269	135	106
Most Wealthy	105	109	109	152	110	108
Difference in % points	57	37	0	117	25	- 2[9]
1,501 - 5,000 Least Wealthy	135	127	109	205	122	108
Most Wealthy	90	96	96	115	103	107
Difference in % points	45	31	13	90	19	1
Over 5,000 Least Wealthy	123	117	109	161	113	109
Most Wealthy	95	99	99	114	103	109
Difference in % points	28	18	10	47	10	0
Percentage of Foundation Entitlement Paid	32.14%	60.36%	100.00%	Not Applicable	78.29%	100.00%
Grant Total						
Basic	$ 1.3 million	$ 1.3 million	$ 1.3 million	$ 1.3 million	$ 1.3 million	$ 1.3 million
Per Capita	37.1 million	37.1 million	37.1 million	63.0 million	—	—
Foundation	25.9 million	25.9 million	25.9 million	—	63.0 million	63.0 million
TOTAL	$64.3 million	$64.3 million	$64.3 million	$64.3 million	$64.3 million	$64.3 million

APPENDIX III-4 (continued)

IMPACT OF REVENUE SHARING OPTIONS (OPTIONS ENTAILING NO INCREASE IN AGGREGATE GRANTS)

MOST WEALTHY AND LEAST WEALTHY MUNICIPALITIES

FOOTNOTES:

[1] The 1985 revenue sharing distribution if the 1985 foundation formula had been used.

[2] This option is the same as the current arrangements, except that in the calculation of the foundation grants, the basic and per capita grants to which the municipality is entitled are considered as recognized revenue.

[3] This option is the same as Option 1, except that the computational mill rates are increased by 9.34% to bring about a payout of 100% of the foundation entitlement of each municipality.

[4] Under this option, foundation grants would be discontinued, and the monies reallocated to the per capita distribution.

[5] Under this option, per capita grants would be discontinued, and the monies reallocated to the foundation portion.

[6] This option is the same as Option 4, except that the computational mill rates are increased by 8.83% to bring about a payout of 100% of the foundation entitlement of each municipality.

[7] These are the mill rates which would be required to meet the standard expenditures, expressed as a percentage of the computational mill rate. The closer these percentages are for the most wealthy and least wealthy municipalities within each population grouping, the greater the amount of equalization.

[8] These are the number of percentage point differences between the most wealthy and least wealthy municipalities. The lower these numbers, the greater the degree of equalization.

[9] The negative numbers under Option 5 mean that the least wealthy municipalities would be able to finance the standard expenditure with a lower mill rate than the most wealthy municipalities. This anomalous situation happens because all municipalities receive full foundation grants to enable them to finance the standard expenditures at the computational mill rate. In addition, however, they also receive a basic grant. Because the basic grant amounts to more in mills to the least wealthy municipalities than the most wealthy municipalities, the former are able to have lower mill rates.

Local Government Finance Commission
September, 1986

APPENDIX III-5

IMPACT OF REVENUE SHARING OPTIONS
(OPTIONS ENTAILING INCREASE IN AGGREGATE GRANTS)

MOST WEALTHY AND LEAST WEALTHY MUNICIPALITIES

Population Category		Mill Rate Required to Meet Standard Expenditure As a Percentage of Computational Mill Rates				
		Current Arrangements[1]	Option 6 Basic Retained, Per Capita Eliminated, Full Foundation Entitlement Paid[2]	Option 7 No Basic, No Per Capita, Full Foundation Paid[3]	Option 8 Basic and Per Capita Retained, Add $17.5 Million to Foundation[4]	Option 9 Basic and Per Capita Retained, but Considered As Recognized Revenue[5]
1 - 100	Least Wealthy[6]	121%	41%	100%	72%	100%
	Most Wealthy[6]	67	79	100	61	75
	Difference in % Points[7]	54	-38	—	11	25
101 - 250	Least Wealthy	131	73	100	85	100
	Most Wealthy	76	89	100	69	87
	Difference in % Points	55	-16	—	16	13
251 - 500	Least Wealthy	102	89	100	78	100
	Most Wealthy	74	94	100	69	81
	Difference in % Points	28	-5	—	9	19
501 - 1,000	Least Wealthy	147	95	100	111	100
	Most Wealthy	95	97	100	85	100
	Difference in % Points	52	-2	—	26	—
1,001 - 1,500	Least Wealthy	162	98	100	125	100
	Most Wealthy	105	99	100	94	100
	Difference in % Points	57	-1	—	31	—
1,501 - 5,000	Least Wealthy	135	99	100	112	100
	Most Wealthy	90	100	100	87	95
	Difference in % Points	45	-1	—	25	5
Over 5,000	Least Wealthy	123	100	100	110	100
	Most Wealthy	95	100	100	92	99
	Difference in % Points	28	—	—	18	1
Percentage of Foundation Entitlement Paid		32.14%	100.00%	100.00%	53.85%	100.00%
Grant Total						
Basic		$ 1.3 million	$ 1.3 million	—	$ 1.3 million	$ 1.3 million
Per Capita		37.1 million	—	—	37.1 million	37.1 million
Foundation		25.9 million	80.5 million	$80.4 million	43.3 million	42.9 million
TOTAL		$64.3 million	$81.8 million	$80.4 million	$81.7 million	$81.3 million

APPENDIX III-5 (continued)

IMPACT OF REVENUE SHARING OPTIONS
(OPTIONS ENTAILING INCREASE IN AGGREGATE GRANTS)

MOST WEALTHY AND LEAST WEALTHY MUNICIPALITIES

FOOTNOTES:

[1] The 1985 revenue sharing distribution, if the 1985 foundation formula had been used.

[2] This option would eliminate the per capita grant and payout the full foundation grant. However, because the basic grant is retained, the least wealthy municipalities would be "over-compensated" for their relatively low wealth and would be able to meet their standard expenditures with a lower mill rate than the most wealthy municipalities.

[3] This option would eliminate both the per capita and basic grants and add sufficient monies to enable full foundation grant payouts.

[4] This option would retain the basic and per capita grants and add $17.5 million to the foundation grant to ensure full payout.

[5] This option is the same as option 8, except the basic and per capita grants are considered as recognized revenue in the calculation of the foundation grant.

[6] These are the mill rates required to meet the standard expenditures expressed as a percentage of the computational mill rate. The closer these percentages are for the most wealthy and least wealthy municipalities within each population grouping, the greater the amount of equalization.

[7] These are the percentage point differences between the most wealthy and least wealthy municipalities. The lower these numbers, the greater the degree of equalization.

Local Government Finance Commission

September, 1986

APPENDIX III-6
ALLOCATION OF URBAN REVENUE SHARING GRANTS AMONG POPULATION GROUPINGS

Population Grouping	Current (1985) Distribution	Option 1	Option 2	Option 3	Option 4	Option 5	Option 6	Option 7	Option 8	Option 9
			Foundation Grants Per Capita[1]							
1 - 100	$ 35.60	$ 16.79	$ 20.92	N/A	$ 86.73	$100.53	$110.78	$110.78	$ 59.65	$ 27.82
101 - 250	29.27	14.04	16.41	N/A	71.29	81.88	91.06	91.06	49.03	23.25
251 - 500	21.68	5.87	4.70	N/A	52.81	56.71	67.45	67.45	36.32	9.72
501 - 1,000	37.58	35.13	46.30	N/A	91.53	105.52	116.91	116.91	62.96	58.19
1,001 - 1,500	42.22	44.87	60.46	N/A	102.84	118.24	131.36	131.36	70.74	74.34
1,501 - 5,000	29.78	24.37	25.43	N/A	77.55	72.94	92.67	92.67	49.90	40.37
Over 5,000	40.79	43.94	41.38	N/A	99.36	95.71	126.91	126.91	68.34	72.80
			Foundation Plus Basic Grants Per Capita[2]							
1 - 100	69.55	50.74	54.87	N/A	120.67	134.48	144.72	110.78	93.60	61.77
101 - 250	44.30	29.07	31.44	N/A	86.32	96.91	106.09	91.06	64.06	38.29
251 - 500	29.80	13.99	12.82	N/A	60.93	64.83	75.57	67.45	44.44	17.84
501 - 1,000	41.93	39.48	50.78	N/A	95.88	109.87	121.26	116.91	67.31	62.54
1,001 - 1,500	44.79	47.44	63.03	N/A	105.41	120.81	133.93	131.36	73.30	76.91
1,501 - 5,000	30.93	25.52	26.57	N/A	73.70	74.09	93.81	92.67	51.05	41.52
Over 5,000	40.87	44.02	41.46	N/A	99.43	95.79	126.99	126.91	68.42	72.88

---

[1] Calculated by dividing the sum of the foundation grants for each population group by the sum of the populations for the respective population group.

[2] Calculated by dividing the sum of the foundation, plus basic grants for each population group by the sum of the populations for the respective population group.

Local Government Finance Commission
September, 1986

APPENDIX III-7

IMPACT OF INCREASING RECOGNIZED EXPENDITURES ON MOST WEALTHY AND LEAST WEALTHY SCHOOL DIVISIONS[1]
(NO INCREASE IN COMPUTATIONAL MILL RATE)

Division (A)	Theoretical Mill Rate[3] (B)	Current Grant[4] (C)	Grant as % of Budget[5] (D)	Change in Grant[6] (E)	% Change in Grant[7] (F)	Change in Grant in Mill Equivalents[8] (G)	Mills Required to Finance Revised Recognized Expenditure[9]
Most Wealthy Divisions[2]							
Kindersley	142.8	$1,560,693	25.1%	$ 486,380	31.2%	11.2	95.5 mills
Eston/Elrose	154.2	1,542,280	29.9	371,470	24.1	11.4	95.5
Leader	155.6	1,246,544	30.1	281,282	22.6	11.1	95.5
Estevan	156.0	1,724,920	31.0	415,076	24.1	11.7	95.5
Weyburn Central	157.4	1,483,235	33.1	326,736	22.0	11.2	95.5
Gull Lake	161.1	1,056,429	35.4	206,529	19.5	10.7	95.5
Rosetown	165.1	2,141,981	33.7	454,120	21.2	12.2	95.5
Lanigan	167.9	1,792,058	37.1	377,101	21.0	12.6	95.5
Thunder Creek	168.6	2,166,762	39.7	438,341	20.2	12.3	95.5
Oxbow	182.3	1,981,702	41.6	371,875	18.8	13.7	95.5
Average	161.1	1,669,660	33.7	372,891	22.5	11.8	95.5
Least Wealthy Divisions[2]							
Deer Park	327.9	3,091,404	67.5	357,178	11.6	24.1	95.5
Humboldt Rural	331.4	4,796,602	63.4	549,912	11.5	24.3	95.5
Yorkdale	344.9	4,850,261	60.8	639,391	13.2	29.0	95.5
Sturgis	371.4	3,819,750	68.5	404,802	10.6	26.4	95.5
P.A. Rural	384.6	7,116,892	67.6	649,081	9.1	24.2	95.5
Parkland	425.7	4,518,874	64.3	561,876	12.4	36.5	95.5
Hudson Bay	435.2	4,607,271	77.1	501,141	10.9	33.3	95.5
Northern Lakes	452.3	4,274,024	64.6	454,971	10.6	34.3	95.5
Sask. Valley	487.7	9,122,960	72.4	1,147,452	12.6	43.8	95.5
Meadow Lake	495.2	6,577,053	69.6	740,882	11.3	40.5	95.5
Average	405.9	5,277,509	67.6	600,669	11.4	31.6	95.5

APPENDIX III-7 (continued)

IMPACT OF INCREASING RECOGNIZED EXPENDITURES ON MOST WEALTHY AND LEAST WEALTHY SCHOOL DIVISIONS[1]
(NO INCREASE IN COMPUTATIONAL MILL RATE)

FOOTNOTES:

[1] See footnote 3 for an explanation of how the recognized expenditures are increased.

[2] The wealthy school divisions are the 10 rural school divisions with the lowest theoretical mill rates, and the least wealthy school divisions are the 10 divisions with the highest theoretical mill rates, as set out in column (A).

[3] The theoretical mill rate is the mill rate a school division would require to balance its budget if it spent at the expenditure level recognized in the foundation formula and had no provincial grants. The only revenue for the school division would be tuition and "other" revenue recognized in the formula.
The recognized expenditures and revenues used in this calculation are those used in the 1985 foundation formula except:

- recognized debt retirement and reserve replenishment were added to the amounts;
- the basic and incremental per pupil rates were increased by 11.5%, so that overall recognized expenditures would be equal to the amounts budgeted by school divisions in 1985.

The assessment used in the calculation is the 1985 equalized assessment used in the 1985 foundation grant calculation. The formula used to calculate the theoretical mill rate is:

$$\text{Theoretical Mill Rate} = \left[\frac{(\text{Recognized Expenditure}) - (\text{Recognized Tuition and Other Revenue})}{\text{Assessment}}\right] \times 1{,}000$$

[4] The 1985 foundation grant, plus the amounts recognized under the capital formula for capital debt retirement and reserve replenishment.

[5] The grant in column (C) as a % of the total expenditure budgeted by the school division for 1985.

[6] The change in the grant if the basic and incremental per pupil rates in the foundation formula were increased by 11.5%, so that aggregate recognized expenditures would equal the aggregate expenditures budgeted by school divisions. The aggregate effect for all school divisions would be to increase grants by approximately $56 million.

[7] Column (E) as a % of column (C).

[8] Column (E) in equivalent mills for the school division. The school division could reduce its mill rate by an equal and opposite amount if it chose to leave its expenditures unchanged.

[9] This is the mill rate which the school divisions would require if they spent at the expenditure level recognized in the foundation formula.

Local Government Finance Commission
September, 1986

APPENDIX III-8

IMPACT OF INCREASING RECOGNIZED EXPENDITURES AND RECOGNIZED LOCAL REVENUE MOST WEALTHY AND LEAST WEALTHY SCHOOL DIVISIONS

	Computational Mill Rate Increased by 19 Mills[1]				Computational Mill Rate Increased by 11 Mills[2]			
Division	Change in Grant[3]	% Change in Grant[4]	Change in Grant in Mill Equivalents[5]	Mills Required to Finance Revised Recognized Expenditure[6]	Change in Grants[3]	% Change in Grant[4]	Changes in Grant in Mill Equivalents[5]	Mill Required to Finance Revised Recognized Expenditure[6]
Most Wealthy Divisions								
Kindersley	-$335,832	-21.5%	-7.8 mills	114.5 mills	$ 10,363	0.7%	0.2mills	106.5 mills
Eston/Elrose	-248,107	-16.1	-7.6	114.5	12,768	0.8	0.4	106.5
Leader	-201,919	-16.2	-7.9	114.5	1,534	0.1	0.1	106.5
Estevan	-256,804	-14.9	-7.3	114.5	26,093	1.5	0.7	106.5
Weyburn Central	-228,431	-15.4	-7.8	114.5	5,323	0.4	0.2	106.5
Gull Lake	-158,999	-15.1	-8.3	114.5	-5,094	-0.5	-0.3	106.5
Rosetown	-254,155	-11.9	-6.8	114.5	44,065	2.1	1.2	106.5
Lanigan	-192,534	-10.7	-6.4	114.5	47,312	2.6	1.6	106.5
Thunder Creek	-238,502	-11.0	-6.7	115.5	46,484	2.1	1.3	106.5
Oxbow	-143,025	-7.2	-5.3	114.5	73,775	3.7	2.7	106.5
Average	-225,831	-14.0	-7.2	114.5	26,262	1.4	0.8	106.5
Least Wealthy Divisions								
Deer Park	75,283	2.4	5.1	114.5	193,975	6.3	13.1	106.5
Humboldt Rural	119,322	2.5	5.3	114.5	300,623	6.3	13.3	106.5
Yorkdale	221,123	4.6	10.0	114.5	397,236	8.2	18.0	106.5
Sturgis	113,847	3.0	7.4	114.5	236,355	6.2	15.4	106.5
Pr. Albert Rural	138,698	1.9	5.2	114.5	353,596	5.0	13.2	106.5
Parkland	269,513	6.0	17.5	114.5	392,614	8.7	25.5	106.5
Hudson Bay	215,407	4.7	14.3	114.5	335,717	7.3	22.3	106.5
Northern Lakes	203,117	4.8	15.3	114.5	309,160	7.2	23.3	106.5
Sask. Valley	649,844	7.1	24.8	114.5	859,363	9.4	32.8	106.5
Meadow Lake	393,033	6.0	21.5	114.5	539,496	8.2	29.5	106.5
Average	239,919	4.3	12.6	114.5	391,814	7.3	20.6	106.5

---

[1] This is the increase in computational mill rate required to offset the effects of the increase in recognized expenditures on the aggregate level of grants. The total level of grants would remain unchanged under this option.

[2] This is the increase in computational mill rate which will serve to minimize the overall increase in grants, but which will also minimize the loss in any grants by the most wealthy municipalities. The total increase in grants under this option would be $23.5 million.

[3] Change in grant in relation to the 1985 grant which has been adjusted to include amounts recognized in the capital formula for capital debt retirement and reserve replenishment.

[4] The change in grant expressed in percentage terms.

[5] The change in grant in terms of the equivalent number of mills on the local tax base. School divisions would be able to change their actual mill rates by an equal and opposite number of mills if they decided to leave their expenditure levels unchanged.

[6] This is the mill rate at which the school divisions would require to finance the revised level of expenditure recognized in the foundation formula.

Local Government Finance Commission
September, 1986